



State of Tennessee

Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

Date: March 12, 2014

To: HSDA Members

From: Melanie M. Hill, Executive Director

**Re: CONSENT CALENDAR JUSTIFICATION
CN1312-047 – Select Specialty Hospital-North Knoxville**

As permitted by Statute and further explained by Agency Rule later in this memo, I have placed this application on the consent calendar based upon my determination that the application appears to meet the established criteria for granting a certificate of need. Need, economic feasibility and contribution to the orderly development of health care appear to have been demonstrated as detailed below. If Agency Members determine that the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the three criteria required for approval of a certificate of need.

At the time the application entered the review cycle on February 1, 2014, it was not opposed. If the application is opposed prior to it being heard, it will be moved to the bottom of the regular March agenda and the applicant will make a full presentation.

Summary—

The facility is licensed by the Department of Health as a chronic disease hospital and certified by Medicare as a Long Term Care Hospital (LTCH). Other acronyms used to identify this type facility include LTAC or LTACH (long-term care acute care hospital).

According to CMS (Centers for Medicare & Medicaid Services) Publication No. 11347, a LTCH is an acute care hospital that provides care for patients who typically have an average inpatient length of stay greater than 25 days. Many of the patients are transferred there from an intensive or critical care unit. LTCHs treat patients with multi-comorbidities requiring long-stay hospital-level care. Patients typically have more than one serious condition, but may improve with time and care, and return home. Services

provided in LTCHs typically included comprehensive rehabilitation, respiratory therapy, head trauma treatment, and pain management.

LTCHs typically are located within a larger “host” hospital, which is referred to as the “hospital within a hospital” concept. The LTCH typically contracts with the host for ancillary services such as laundry, housekeeping, dietary, labs, and so forth.

This application is for the relocation of an existing 33-bed hospital from 900 East Oak Hill Avenue in Knoxville to 7557 East Dannaher Drive in Powell, a distance of less than 10 miles. The applicant proposes to relocate the hospital from leased space on the 4th floor of Physicians Regional Medical Center in Knoxville to leased space on the 1st floor of a medical office building on the campus of North Knoxville Medical Center in Powell. Both locations are in Knox County and the Tennova Health System owns both. The existing facility is located in slightly over 13,000 square feet of space with only 5 of the 33 beds being located in private rooms. The proposed location will provide slightly over 25,000 square feet of space with all 33-beds in private rooms.

The applicant believes the relocation is necessary because the current landlord, Physicians Regional Medical Center, (previously known as St. Mary’s, then later, Mercy Hospital), has plans to relocate at some point in the future. While it could possibly remain in the existing facility should its landlord move, it really is not feasible because it contracts for a number of ancillary services from Physicians Regional Medical Center. Problems have also been identified with the existing space at the current location, which is on average about 60 years old. Moving to newer space at the current site would improve the physical surroundings but would not resolve the need to have a host hospital that could provide contract ancillary services should the host hospital relocate at some point in the future.

NOTE TO AGENCY MEMBERS: A Tennova representative previously contacted Agency staff to discuss plans to file a certificate of need application for the relocation of Physicians Regional Medical Center. To date, Tennova has identified the proposed site, acquired an option, requested and received rezoning, and received approval for the use on review plan by the City of Knoxville. In August, 2013, Franklin, Tennessee based CHS (Community Health Systems) announced its plans to acquire the parent company of Tennova Health Care, Florida-based HMA (Health Management Associates). That acquisition has only just recently closed.

The applicant identified several reasons and benefits for the relocation on pages 10-11 of the original application and discussed why other alternatives were not desirable on page 42-43 of the original application.

The project will be funded by cash reserves of the applicant. The Project Cost Chart identifies the project cost as \$13,910,744, which includes the fair market value of the leased space. The actual capital cost for the project is \$6,676,541. The parent company advanced \$9,878,274 to the applicant, which is identified as available reserve funds on the Balance Sheet.

Executive Director Justification -

I recommend approval based upon my belief the general criteria for a certificate of need have been met.

Need- Relocating to a new site will help this facility better serve the special needs population it is licensed and certified to serve. The relocation will provide all private rooms and significantly more space overall, which is important when considering the type of medical equipment needed to care for this vulnerable patient population. The availability of more private rooms means that acute care hospitals can transfer high acuity patients needing longer stays into less costly beds more quickly than they can currently which will help control health care costs.

Economic Feasibility- The project will be funded by cash reserves. The existing facility historically had a positive cash flow and net operating income. The relocation will not result in greater cost to patients or higher reimbursement for the applicant.

Contribution to the Orderly Development of Health Care- The project will not duplicate existing services but will simply relocate them to a more efficient space. The new location will provide more private rooms, which will better serve patients as previously noted. All private rooms will also help foster infection control in this very vulnerable population. Existing contracts with insurance companies and managed care organizations will remain in place

Statutory Citation -TCA 68-11-1608. Review of applications -- Report

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

Rules of the Health Services and Development Agency-- 0720-10-.05 CONSENT CALENDAR

- (1) Each monthly meeting's agenda will be available for both a consent calendar and a regular calendar.
- (2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.
- (3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.

(4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.

(a) For purposes of this rule, the "next regular agenda" means the next regular calendar to be considered at the same monthly meeting.

(5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
MARCH 26, 2014
APPLICATION SUMMARY**

NAME OF PROJECT: Select Specialty Hospital-North Knoxville

PROJECT NUMBER: CN1312-047

ADDRESS: North Knoxville Medical Center
Physicians Plaza B, 1st (Middle) Floor, 7557-B
Dannaher Drive
Powell (Knox County), TN 37849

LEGAL OWNER: Select Specialty Hospital-North Knoxville, Inc.
900 East Oak Hill Avenue, 4th Floor
Knoxville (Knox County), TN 37917

OPERATING ENTITY: N/A

CONTACT PERSON: John Wellborn
(615) 665-2022

DATE FILED: December 6, 2013

PROJECT COST: \$13,910,744

FINANCING: Cash Reserves

REASON FOR FILING: Relocation of a thirty-three (33) bed long term acute care hospital (LTCH)

DESCRIPTION:

Select Specialty Hospital-North Knoxville, a thirty-three (33) long term acute care bed hospital, is seeking **CONSENT CALENDER** approval for the relocation from its present address at Physicians Regional Medical Center, 900 East Oak Hill, 4th floor, Knoxville (Knox County) to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Dannaher Drive,

Select Specialty Hospital-North Knoxville
CN1312-047
March 26, 2014
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Powell (Knox County), TN. The licensed bed complement will remain the same at the proposed location.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that included the addition of Beds, Services, or Medical Equipment will be reviewed under the standards for those specific activities

Not applicable. This project does not involve the addition of beds, services, or medical equipment.

2. For relocation or replacement of an existing licensed health care institution:
 - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative

The applicant describes alternatives on pages 10-11 and 42-43 of the original application and provides an explanation as to why it believes those were not feasible options. Since Select Specialty Hospital-North Knoxville operates as a 'hospital within a hospital' and the host hospital has announced its future intention to seek a certificate of need to relocate, the relocation to another near Tennova site was chosen.

It appears that this criterion has been met.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant has averaged 77% occupancy the past two years, and is averaging 78% for 2013.

It appears that this criterion has been met.

Select Specialty Hospital-North Knoxville

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Staff Summary

The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics.

SUMMARY:

The applicant, Select Specialty Hospital-North Knoxville, proposes to relocate its thirty-three (33) bed LTCH 8.2 miles north from the fourth floor of Tennova Healthcare's Physician Regional Medical Center located on East Oak Hill Avenue in Knoxville, to Tennova's North Knoxville Medical Center's 62 acre campus located in northern Knox County. Select Specialty Hospital-North Knoxville will lease a shelled in area of approximately 25,701 rentable square feet on the first (middle) floor of the medical office building named Physicians Plaza B. The LTCH will be an independently licensed long term acute care hospital.

This project is a relocation of an existing licensed facility within the same "host hospital" system, within the same county (Knox). If approved, the applicant estimates Select Specialty Hospital-North Knoxville will open no later than January 1, 2015 at the proposed location.

Need

- Select Specialty Hospital-North Knoxville currently leases a 33 bed-unit on the fourth floor of Tennova Healthcare's tertiary hospital which is planning to move to another location in Knox County. Select Specialty has an opportunity to move to a new campus in north Knox County which is also owned by Tennova.
- It is not feasible for the applicant to remain at a location that may not provide access to diagnostic imaging, surgery, specialist coverage and consultations.
- At Select Specialty's current location, Select has five (5) private rooms in its total licensed beds of thirty-three (33). Semi-private rooms are often needed to be used as single rooms to isolate infectious patients or to separate female and male patients.
- The current location is located on the top floor of the oldest wing and has structural problems resulting in water damage. The current lease space is more than 60 years old.
- The heating and air in patient rooms are difficult to regulate for fragile patients in the current location.

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- AIA design standards now recommend private rooms. The new proposed location will consist of thirty-three (33) private rooms.
- The rooms will be larger making it easier to serve ventilator and dialysis patients.

Ownership

- The ultimate parent company of Select Specialty Hospital-North Knoxville and Select Medical Corporation (SMC) is Select Medical Holdings Corporation.
- Select Medical Corporation (SMC) operates long-term acute care hospitals, medical rehabilitation hospitals or physical therapy outpatient clinics in over 30 states.
- In addition to Select Specialty Hospital-North Knoxville, Select Medical Corporation operates four other LTCHs in Tennessee: Select Specialty Hospital-Nashville (57 beds), Select Specialty Hospital-Knoxville (35 beds), Select Specialty Hospital-Memphis (39 beds), and Select Specialty Hospital-TriCities (33 beds).
- The parent company provides support services to Select Specialty Hospital-North Knoxville which are listed as "fees to affiliates" in the Projected Data Chart.
- The facility is self-managed.

Long-term acute care hospitals (LTCHs) provide extended medical and rehabilitative care to individuals with clinically complex problems, such as multiple acute or chronic conditions, that require hospital-level care for relatively extended periods. Typical conditions suitable for admission to LTCH include chronic respiratory disorders and other pulmonary conditions; cardiac, neurological, and renal conditions, infections and severe wounds. A facility must meet Medicare's conditions of participation for acute care hospitals and have an average inpatient length of stay greater than 25 days to qualify as an LTCH for Medicare payment. CMS established regulations to prevent general acute care hospitals from operating LTCHs, but a separate "hospital within a hospital" can qualify, which is the category in which the applicant falls.

Note to Agency members: Prior to October 1, 2013, CMS limited LTCHs from admitting more than 25% of its admissions from any single hospital. This is commonly identified as the "25% Rule". "Hospitals-within-hospitals" such as the applicant will now be held to a more lenient threshold of 50% for the four year period of October 1, 2013 through September 30, 2017 due to the December 26, 2013 effective date of The Bipartisan Budget Act. Please see the American

Select Specialty Hospital-North Knoxville

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Hospital Association document "LTCH Provisions in Bipartisan Budget Act Signed into Law December 26, 2013" in Supplemental 3 for more information.

In 2012, Select Specialty Hospital-North Knoxville exceeded the CMS "25% rule" by admitting 133 patients, or 37.6% of admissions from the host hospital, Physicians Regional Medical Center. Please refer to table labeled "Select Specialty Hospital North Knoxville—C2012 Admissions by Source" in supplemental one.

The payment to an LTACH that exceeds the 25 percent threshold is adjusted based on the lesser of a payment based on the Medicare Severity Long-Term Care Diagnosis-Related Groups (MS-LTC-DRGs) or an amount equivalent to what Medicare would have otherwise paid under the Inpatient Prospective Payment System (IPPS). Source: CMS, Long Term Care Hospital Prospective Payment System: Payment Adjustment Policy, December 2012.

Facility Information

Select Specialty will lease approximately 23,624 usable square feet on the first floor of the medical office building (MOB) named Physicians Plaza B. The lease will be for an initial term of ten (10) years. The LTCH will have its own admitting, medical records, therapy, pharmacy areas, dayrooms, family lounge, and support spaces. Select Specialty will contract with the host hospital to provide laboratory, imaging, surgery, and dietary.

Service Area Demographics

Select Specialty Hospital-North Knoxville declared service area includes Anderson, Blount, Campbell, Claiborne, Cocke, Hamblen, Jefferson, Knox, Loudon, Roane, Sevier and Scott Counties.

- The total population of the service area is estimated at 1,108,962 residents in calendar year (CY) 2014 increasing by approximately 4.3% to 1,155,474 in CY 2018.
- The range of growth is 0.1% in Scott County to 5.8% in Jefferson and Sevier Counties.
- The overall statewide population is projected to grow by 3.7% from 2014 to 2018.
- The Age 65+ population of the service area is estimated at 189,889 residents in calendar year (CY) 2014 increasing by approximately 13.2% to 214,985 in CY 2018. The Age 65+ population statewide is expected to grow 12.3% during this time period.

Select Specialty Hospital-North Knoxville

CN1312-047

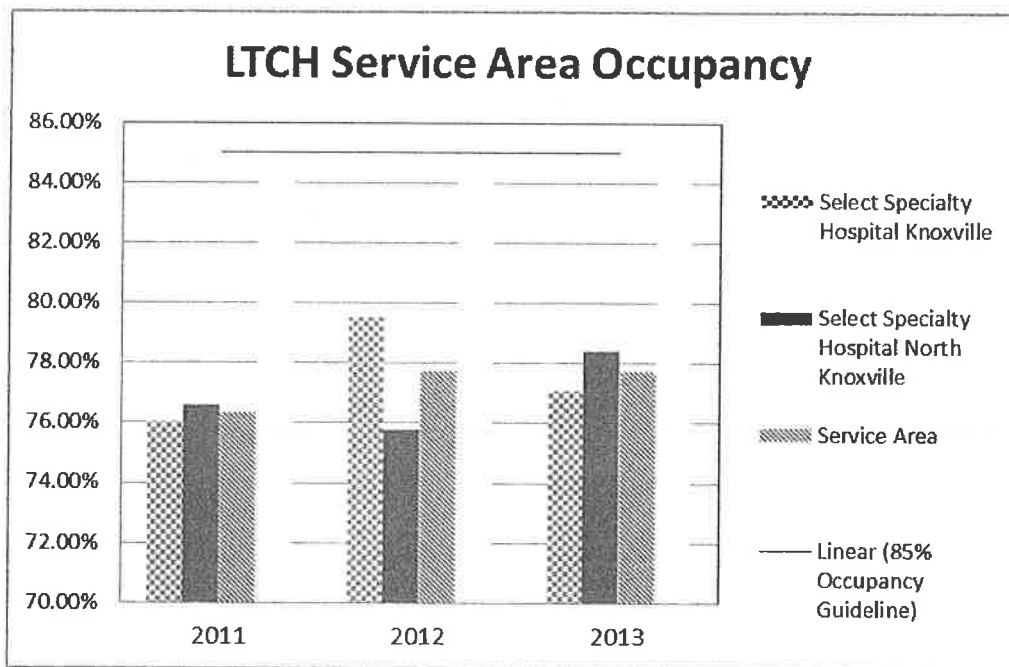
March 26, 2014

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- The Age 65+ population of the service area is projected to be 18.6% of the total population in 2018. This compares to 16.1% for the state overall.
- The latest 2013 percentage of the proposed service area population enrolled in the TennCare program is approximately 16.8%. The statewide enrollment proportion is 17.5%.

Source: The University of Tennessee Center for Business and Economic Research Population Projection Data Files, Reassembled by the Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.

The occupancy trends for the existing LTCHs with comparison to the LTCH's criteria and standards' occupancy guideline of 85% are displayed in the following graph.



- As the chart above displays, the two existing LTCHs in the service area have not attained the occupancy standard of 85% and the overall annual average occupancy for the two facilities was 77% in 2013.

The first year after project completion (2015), the applicant expects the 33 bed LTCH to attain an occupancy rate of 79.3% and increase to 80.1% in 2016.

Select Specialty Hospital-North Knoxville

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Project Cost

Major costs are:

- The largest cost of the proposed project is the fair market value of the lease at \$7,234,203 or 52% of total project cost.
- The next largest cost is \$5,025,000 for construction costs or 36.1% of total project cost.
- Another major cost is \$666,562 for fixed equipment or 4.8% of total cost.
- For other details on Project Cost, see the Project Cost Chart on page 29 of the original application.
- The applicant expects the renovated construction cost per square foot to be \$212.71. This is between the median cost PSF of \$177.60 and the 3rd quartile cost PSF of \$249.00/sq. ft. for hospital renovation projects previously approved between 2010 and 2012.
- The applicant has provided a letter dated November 27, 2013 from Currence and Gray, Architects, PLLC that indicates the proposed renovation will meet all applicable federal, state, and local requirements including the current Guidelines for Design and Construction of Health Care Facilities.

Historical Data Chart

- According to the Historical Data Chart, Select Specialty Hospital-North Knoxville reported net operating income less capital expenditures in each of the three past years: \$1,073,422 for 2011; \$1,438,761 for 2012; and \$1,103,710 for 2013.

Projected Data Chart

The Projected Data Chart reflects \$35,597,429 in total gross revenue on 9,548 patient days during the first year of operation and \$37,045,388 on 9,647 patient days in Year Two. The Projected Data Chart reflects the following:

- Net operating income less capital expenditures for the applicant will equal \$235,641 in Year One increasing to \$304,858 in Year Two.
- Net operating revenue after bad debt, charity care, and contractual adjustments is expected to reach \$13,282,506 in Year One and \$13,592,450 in Year Two representing approximately 37% of total gross revenue in both years.

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- The proposed LTCH relocation expects to realize favorable operating margins before capital expenditures of approximately 1.8% of total net operating revenue in the first year of operations.
- Gross operating margin is expected to be 0.7% in Year 1 and 0.8% Year 2.

Net operating income less capital expenditures will decrease 78.5% from \$1,103,710 in Year 2013 (Annualized January-October 2013) at the current location, to \$235,641 in Year 2015 at the proposed location due to the following:

- Rent Expense will increase from \$340,532 in the current location to \$564,651 in the Year 2015 at the proposed location. At the existing location, Select leases 13,110 rentable square feet (RSF), the new lease will consist of 25,107 RSF in CY2015.
- Depreciation will increase from \$261,332 in Year 2013 (annualized January-October) at the current location to \$1,288,225 in Year 2015 at the proposed location.

Charges

In Year One of the proposed project, the average patient daily charges are as follows:

- The proposed average gross per diem charge is \$3,728/day in 2015.
- The average deduction from operating revenue is \$2,337/day, producing an average net per diem charge of \$1,391/day.

Medicare/TennCare Payor Mix

- The expected payor mix for the project in Year 1 includes 79.5%, or \$28,299,956 for Medicare and 5.8%, or \$2,064,651 for TennCare/Medicaid.
- Select Specialty Hospital-North Knoxville contracts only with the TennCare MCO BlueCare, but is also pursuing a future contract with TennCare MCO United Community Healthcare Plan.

Financing

A November 27, 2013 letter from Marty Jackson, Select Medical Corporation's Executive Vice President, confirms the applicant has sufficient cash reserves to finance the proposed project.

Select Medical Corporation's Affiliates audited financial statements for the period ending December 31, 2012 reported \$40,144,000 in cash and cash equivalents, total current assets of \$453,663,000, total current liabilities of \$390,446,000 and a current ratio of 1.16:1.

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Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Staffing

The proposed direct care staffing is displayed in the table below:

Position Type	FTEs
LPN	2.0
RN	34.0
Ancillary Nursing Personnel	16.0
Therapist (SP, OT, PT, RT)	10.2
Therapy Assistants (COTA, PTA)	2.0
Total Clinical	64.2
Other non-direct care	22.4
Total	86.6

Please refer to Table 15 on page 45 of the original application for a complete listing of the staffing pattern including salary ranges.

Licensure/Accreditation

The facility is licensed by the Tennessee Department of Health, and accredited by The Joint Commission up to thirty-six (36) months beginning February 8, 2013. The Joint Commission conducted an unannounced full survey from February 6, 2013 to February 7, 2013. A letter dated May 7, 2013 from The Joint Commission recommends continued Medicare certification also effective February 8, 2013.

The applicant has submitted the required information on corporate documentation, title and deeds, service area population demographics and credentials of the radiation oncology medical staff. Staff will have a copy of these documents available for member reference at the meeting. Copies are also available for review at the Health Services and Development Agency office.

Should the Agency vote to approve this project, the CON would expire in three years.

Select Specialty Hospital-North Knoxville

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CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, denied or pending applications for this applicant.

Outstanding Certificates of Need

Select Specialty Hospital-Nashville, CN1210-053A, has an outstanding Certificate of Need which will expire on April 1, 2016. It was approved at the February 27, 2013 Agency meeting for the addition of thirteen (13) long term acute care (LTCH) beds to its current forty-seven (47) bed LTCH hospital. Select Specialty Hospital-Nashville will also add ten (10) beds under the statutory exemption available to hospitals with less than 100 beds found at TCA 68-11-107 (g). If approved, the final bed count for the facility will be seventy (70) LTCH beds. The estimated cost of the project is **\$3,485,811.00**. *Project Status: This facility is now licensed for seventy (70) beds. HSDA staff awaits the Final Project Progress Report.*

Select Specialty Hospital-Memphis, CN1212-062A, has an outstanding Certificate of Need which will expire on July 1, 2016. It was approved at the May 22, 2013 Agency meeting for addition of twenty-eight (28) long term acute beds (LTCH) to the existing thirty-nine (39) bed facility, located in leased space at St. Francis Hospital, 5959 Park Avenue, Memphis (Shelby County), TN. Select Specialty will also add ten (10) beds under the statutory exemption available to hospitals with less than 100 beds found at TCA 68-11-107 (g) for a total licensed bed complement of seventy-seven (77) LTCH beds. St. Francis Hospital will reduce its licensed beds by thirty-eight (38) beds (28 plus 10 beds per statutory exemption). **The estimated project cost is \$6,898,392.00.** *Project Status: A March 4, 2014 report stated renovations should start as soon as reviewed and approved by the Tennessee Authorities.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent, denied or pending applications, or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

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PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME
3/6/2014

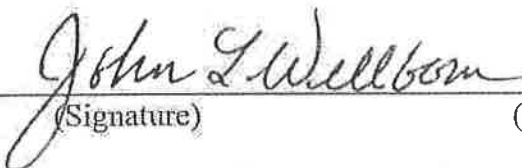
LETTER OF INTENT

LETTER OF INTENT -- HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the News Sentinel, which is a newspaper of general circulation in Knox County, Tennessee, on December 1, 2013, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Select Specialty Hospital--North Knoxville (a long term acute care hospital), owned and managed by Select Specialty Hospital--North Knoxville, Inc. (a corporation), intends to file an application for a Certificate of Need to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, Knoxville, TN 37917, to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Dannaher Drive, Powell, TN 37849. The proposed location is a medical office building on the campus of Tennova Healthcare--North Knoxville Medical Center. The project cost for CON purposes, which includes the value of space being leased, is estimated at \$13,910,744. Select Specialty Hospital--North Knoxville is licensed by the Board for Licensing Health Care Facilities for thirty-three (33) long term acute care beds. Its licensed bed complement will remain the same at the new location. The project does not include any major medical equipment and it will not add or discontinue any other significant health service.

The anticipated date of filing the application is on or before December 6, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 210, Nashville, TN 37215; (615) 665-2022.

	12-1-13	jwdsg@comcast.net
(Signature)	(Date)	(E-mail Address)

COPY

-Application

Select Specialty

Hospital

NKnoxville

CN1312-047

December 2, 2013

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application Submittal
Select Specialty Hospital--North Knoxville
Knox County

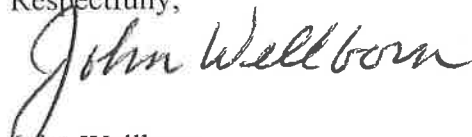
Dear Mrs. Hill:

This letter transmits an original and two copies of the subject application. The affidavit and filing fee are enclosed.

This project is to relocate an existing Long Term Acute Care Hospital within Knox County. It does not propose to change the facility's licensed bed complement, scope of services, home county, service area, accessibility, ownership, or management. For those reasons, the applicant respectfully requests that it be scheduled for consent calendar review.

I am the contact person for this project. Byron Trauger is legal counsel. Please advise me of any additional information you may need. We look forward to working with the Agency on this project.

Respectfully,



John Wellborn
Consultant

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NOTICE **Residential** **tractors**

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ville, TN 37917

NOTIFICATION OF INTENT **TO APPLY FOR A CERTIFICATE OF NEED**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Select Specialty Hospital-North Knoxville (a long term acute care hospital), owned and managed by Select Specialty Hospital-North Knoxville, Inc. (a corporation), intends to file an application for a Certificate of Need to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, Knoxville, TN 37917, to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Donahoe Drive, Powell, TN 37849. The proposed location is a medical office building on the campus of Tennova Healthcare-North Knoxville Medical Center. The project cost for CON purposes, which includes the value of space being leased, is estimated at \$13,910,744. Select Specialty Hospital-North Knoxville is licensed by the Board for Licensing Health Care Facilities for thirty-three (33) long term acute care beds. Its licensed bed complement will remain the same at the new location. The project does not include any major medical equipment and it will not add or discontinue any other significant health service.

The anticipated date of filing the application is on or before December 6, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 210, Nashville, TN 37215; (615) 665-2022.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Tennessee Health Services
and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Pursuant to TCA Sec. 68-11-1607(c)(1): (A) any health care institution wishing to oppose a Certificate of Need application must file a written objection with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

This instrument prepared by
ROBERT MOYERS, Manager
Neighborhood Codes Enforcement
400 Main Street, #465
Knoxville, Tennessee 37902

ORDER

FROM: DAVID BRACE, PUBLIC OFFICER
FOR THE CITY OF KNOXVILLE

TO: SHARON WELLS, ADDRESS

UNKNOWN
J. MICHAEL WINCHESTER, TRUSTEE,
800 SOUTH GAY STREET, SUITE 1000,
KNOXVILLE, TENNESSEE 37909
FT REALTY SECURITIES TRUST II, P.O.
BOX 132, MEMPHIS, TENNESSEE 38101
FIRST TENNESSEE BANK NATIONAL
ASSOCIATION, 800 SOUTH GAY STREET,
KNOXVILLE, TENNESSEE 37929
RAYMOND A. MORRIS, DECEASED

RE: 3817 WAYNE DRIVE INCLUDING
ACCESSORY STRUCTURE
CLT# 070K-B-004

This matter came to be heard before the Public Officer for the City of Knoxville, on the 1st day of November, 2013. After stating the charges set forth in the Complaint filed on the 17th day of October, 2013, the Public Officer called for proof and defense of the allegations stated therein.

Charge: This structure is in violation of Article VI of the Knoxville City Code and of the International Property Maintenance Code rendering it unfit for human habitation.

Evidence: Pictures, file, and testimony of Robert Moyers, Manager, Neighborhood Codes Enforcement.

Findings of Fact: That the structure is in violation of numerous portions of the Building Code of the City of Knoxville, to wit:

a. The structure is out of compliance with the Codes for the City of Knoxville

b. The structure is an attractive nuisance.

c. The structure is dangerous and injurious to the health and safety of the occupants and the public.

Conclusions of Law: The property constitutes an unfit dwelling within the meaning of Section 6-143 of the Knoxville City Code and is unfit for human habitation within the meaning of Section 108 of the International Property Maintenance Code; specifically the building is so damaged, decayed, dilapidated, unsanitary, unsafe, and vermin-infested that it creates a serious hazard to the health and safety of the occupants, the public, and lacks illumination, ventilation, or sanitation facilities adequate to protect the health or safety of the occupants or the public.

IT IS, THEREFORE, ORDERED that the

NOTICE TO CREDITORS

ESTATE OF
HARRY L. KENNEDY
DOCKET NUMBER 74366-1

Notice is hereby given that on the 26th day of November, 2013, letters testamentary in respect of the Estate of

HARRY L. KENNEDY
who died Nov 11, 2013, were issued the undersigned by the Clerk and Master of the Chancery Court of Knox County, Tennessee. All persons, resident and non-resident, having claims, matured or unmatured, against his or her estate are required to file the same with the Clerk and Master of the above named Court on or before the earlier of the dates prescribed in (1) or (2) otherwise their claims will be forever barred.

(1)(A) Four (4) months from the date of the first publication of this notice if the creditor received an actual copy of this notice to creditors at least sixty (60) days before the date that is four (4) months from the date of this first publication; or

(B) Sixty (60) days from the date the creditor received an actual copy of the notice to creditors if the creditor received the copy of the notice less than sixty (60) days prior to the date that is four (4) months from the date of first publication as described in (1)(A); or

(2) Twelve (12) months from the decedent's date of death.

This the 26th day of November, 2013.

Estate of **HARRY L. KENNEDY**

PERSONAL REPRESENTATIVE(S):

Penny L. Latta, Executrix
6937 Charwell Road
Knoxville, TN 37931

Roy L. Aaron
Attorney-at-Law
P.O. Box 869
Knoxville, TN 37931

Publish: 12/1/13 and 12/8/13

CERTIFICATE OF COMPLIANCE

Take notice that Jared W Jordan 1631 Courts Meadow Cove Collierville, TN 38017 And David D Stevens 1441 Nighthawk Pointe Naples, FL 34105 has applied to Farragut, TN for a Certificate of Compliance and has or will apply Tennessee Alcoholic Beverage Commission at Nashville for a retail Liquor License for a store to be named Campbell Station Wine & Spirits and to be located at 707 North Campbell Station Road Farragut, TN 37934 and owned by DSJJ, LLC 1631 Courts Meadow Cove Collierville, TN 38017.

All Persons wishing to be heard on the Certificate of Compliance may personally, or through counsel, submit their view in writing at 11408 Municipal Center Drive, Farragut, TN on December 12, 2013 at 7:00 P.M.

The Tennessee Alcoholic Beverage Commission will consider the application at a date to be set by the Tennessee Alcoholic Beverage Commission in Nashville, Tennessee. Interested persons may personally, or through counsel, submit their views in writing by the hearing date to be scheduled by the ABC.

Anyone with questions concerning this application or the laws relating to it may call or write the Alcoholic Beverage Commission at 4220 Whittle Springs Road, Knoxville, TN 37917 or call (865)-594-6342.

This instrument prepared by
ROBERT MOYERS, Manager
Neighborhood Codes Enforcement
400 Main Street, #465
Knoxville, Tennessee 37902

ORDER

**SELECT SPECIALTY HOSPITAL--
NORTH KNOXVILLE**

**CERTIFICATE OF NEED APPLICATION
TO RELOCATE TO
NORTH KNOXVILLE MEDICAL CENTER
IN POWELL**

Filed December 2013

PART A**1. Name of Facility, Agency, or Institution**

Select Specialty Hospital--North Knoxville		
<i>Name</i>		
North Knoxville Medical Center, Physicians Plaza B, 1 st (Middle) Floor		
7557-B Dannaher Drive		
<i>Street or Route</i>		<i>County</i>
Powell	TN	37849
<i>City</i>	<i>State</i>	<i>Zip Code</i>

2. Contact Person Available for Responses to Questions

John Wellborn		Consultant	
<i>Name</i>		<i>Title</i>	
Development Support Group		jwdsg@comcast.net	
<i>Company Name</i>		<i>E-Mail Address</i>	
4219 Hillsboro Road, Suite 210	Nashville	TN	37215
<i>Street or Route</i>	<i>City</i>	<i>State</i>	<i>Zip Code</i>
CON Consultant	615-665-2022	615-665-2042	
<i>Association With Owner</i>	<i>Phone Number</i>	<i>Fax Number</i>	

3. Owner of the Facility, Agency, or Institution

Select Specialty Hospital--North Knoxville, Inc.		
<i>Name</i>		
900 East Oak Hill Avenue, 4 th Floor		Knox
<i>Street or Route</i>		<i>County</i>
Knoxville	TN	37917
<i>City</i>	<i>State</i>	<i>Zip Code</i>

4. Type of Ownership or Control (Check One)

A. Sole Proprietorship		F. Government (State of TN or Political Subdivision)	
B. Partnership		G. Joint Venture	
C. Limited Partnership		H. Limited Liability Company	
D. Corporation (For-Profit)	x	I. Other (Specify):	
E. Corporation (Not-for-Profit)			

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND
REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS

5. Name of Management/Operating Entity (If Applicable) **NA**

<i>Name</i>		
<i>Street or Route</i>	<i>County</i>	
<i>City</i>	<i>State</i>	<i>Zip Code</i>

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership	<input type="checkbox"/>	D. Option to Lease	<input type="checkbox"/>
B. Option to Purchase	<input type="checkbox"/>	E. Other (Specify):	<input type="checkbox"/>
C. Lease of 10 Years	<input checked="" type="checkbox"/>		<input type="checkbox"/>

7. Type of Institution (Check as appropriate—more than one may apply)

A. Hospital (Specify): LT Acute	<input checked="" type="checkbox"/>	I. Nursing Home	<input type="checkbox"/>
B. Ambulatory Surgical Treatment Center (ASTC) Multi-Specialty	<input type="checkbox"/>	J. Outpatient Diagnostic Center	<input type="checkbox"/>
C. ASTC, Single Specialty	<input type="checkbox"/>	K. Recuperation Center	<input type="checkbox"/>
D. Home Health Agency	<input type="checkbox"/>	L. Rehabilitation Center	<input type="checkbox"/>
E. Hospice	<input type="checkbox"/>	M. Residential Hospice	<input type="checkbox"/>
F. Mental Health Hospital	<input type="checkbox"/>	N. Non-Residential Methadone	<input type="checkbox"/>
G. Mental Health Residential Facility	<input type="checkbox"/>	O. Birthing Center	<input type="checkbox"/>
H. Mental Retardation Institutional Habilitation Facility (ICF/MR)	<input type="checkbox"/>	P. Other Outpatient Facility (Specify):	<input type="checkbox"/>
	<input type="checkbox"/>	Q. Other (Specify):	<input type="checkbox"/>

8. Purpose of Review (Check as appropriate—more than one may apply)

A. New Institution	<input type="checkbox"/>	G. Change in Bed Complement Please underline the type of Change: Increase, Decrease, Designation, Distribution, Conversion, Relocation	<input type="checkbox"/>
B. Replacement/Existing Facility	<input checked="" type="checkbox"/>	H. Change of Location	<input checked="" type="checkbox"/>
C. Modification/Existing Facility	<input type="checkbox"/>	I. Other (Specify):	<input type="checkbox"/>
D. Initiation of Health Care Service as defined in TCA Sec 68-11-1607(4) (Specify)	<input type="checkbox"/>		<input type="checkbox"/>
E. Discontinuance of OB Service	<input type="checkbox"/>		<input type="checkbox"/>
F. Acquisition of Equipment	<input type="checkbox"/>		<input type="checkbox"/>

9. Bed Complement Data*(Please indicate current and proposed distribution and certification of facility beds.)*

	Current Licensed Beds	CON approved beds (not in service)	Staffed Beds	Beds Proposed (Change)	TOTAL Beds at Completion
A. Medical					
B. Surgical					
C. Long Term Care Hosp.	33	0	33	0	33
D. Obsetrical					
E. ICU/CCU					
F. Neonatal					
G. Pediatric					
H. Adult Psychiatric					
I. Geriatric Psychiatric					
J. Child/Adolesc. Psych.					
K. Rehabilitation					
L. Nursing Facility (non-Medicaid certified)					
M. Nursing Facility Lev. 1 (Medicaid only)					
N. Nursing Facility Lev. 2 (Medicare only)					
O Nursing Facility Lev. 2 (dually certified for Medicare & Medicaid)					
P. ICF/MR					
Q. Adult Chemical Dependency					
R. Child/Adolescent Chemical Dependency					
S. Swing Beds					
T. Mental Health Residential Treatment					
U. Residential Hospice					
TOTAL	33	0	33	0	33

10. Medicare Provider Number:	442015
Certification Type:	Acute Care Hospital, Long Term
11. Medicaid Provider Number:	044215
Certification Type:	Acute Care Hospital, Long Term

12. & 13. See page 4

A.12. IF THIS IS A NEW FACILITY, WILL CERTIFICATION BE SOUGHT FOR MEDICARE AND/OR MEDICAID?

This is an existing long term acute care facility that is already contracted to both Medicare and TennCare/Medicaid.

A.13. IDENTIFY ALL TENNCARE MANAGED CARE ORGANIZATIONS / BEHAVIORAL HEALTH ORGANIZATIONS (MCO'S/BHO'S) OPERATING IN THE PROPOSED SERVICE AREA. WILL THIS PROJECT INVOLVE THE TREATMENT OF TENNCARE PARTICIPANTS? Yes IF THE RESPONSE TO THIS ITEM IS YES, PLEASE IDENTIFY ALL MCO'S WITH WHICH THE APPLICANT HAS CONTRACTED OR PLANS TO CONTRACT.

DISCUSS ANY OUT-OF-NETWORK RELATIONSHIPS IN PLACE WITH MCO'S/BHO'S IN THE AREA.

The majority of long term acute care hospital ("LTACH") admissions are Medicare-age patients, some of whom are also Medicaid-eligible. During the 12 months from November 2012 through October 2013, approximately 79.5% of gross charges were billed to Medicare.

The applicant also contracts with the TennCare MCO's listed below. During the past twelve months approximately 5.8% of this hospital's gross charges were billed to Medicaid.

Table One: Current Contractual Relationships with Service Area MCO's	
Available TennCare MCO's	Applicant's Relationship
BlueCare	contracted
United Community Healthcare Plan (formerly AmeriChoice)	not contracted, but have pursued contract
Select	not contracted

SECTION B: PROJECT DESCRIPTION

B.I. PROVIDE A BRIEF EXECUTIVE SUMMARY OF THE PROJECT NOT TO EXCEED TWO PAGES. TOPICS TO BE INCLUDED IN THE EXECUTIVE SUMMARY ARE A BRIEF DESCRIPTION OF PROPOSED SERVICES AND EQUIPMENT, OWNERSHIP STRUCTURE, SERVICE AREA, NEED, EXISTING RESOURCES, PROJECT COST, FUNDING, FINANCIAL FEASIBILITY AND STAFFING.

Proposed Services and Equipment

- The applicant, Select Specialty Hospital--North Knoxville, is a 33-bed Long Term Acute Care Hospital ("LTACH"). That is a special category of small, Medicare-certified hospitals. They admit primarily (but not only) vulnerable Medicare patients who need prolonged inpatient acute care (25+ days), after discharge from an initial acute care stay at a general hospital. They also contract with Medicaid. For example, at this hospital almost 6% of the patient days provided in the past 12 months have been Medicaid days.
- This application proposes to relocate Select Specialty Hospital--North Knoxville within Knox County. The hospital currently leases and licenses a fourth-floor unit of 33 beds in Tennova Healthcare's tertiary care hospital at 900 East Oak Hill Avenue (a former Mercy/St. Mary's facility). The applicant is proposing to move its licensed operation to leased space in a medical office building on the campus of Tennova's much newer North Knoxville Medical Center in Powell. No change in ownership, licensee, licensed bed complement, scope of services, or service area will occur. This is only a relocation of an existing licensed facility within the same "host hospital" system, within the same county.

Ownership Structure

- The applicant facility is owned and operated by Select Specialty Hospital--North Knoxville, Inc., a Missouri corporation. Its ultimate parent organization is Select Medical Holdings Corporation, a Delaware public company traded on the New York Stock Exchange.
- The facility is self-managed. It has no management contract with its parent company. The parent company provides certain support services to its hospitals, for which the hospitals are billed as "management fees", but at Select that is a practical business term and does not indicate a legal relationship other than normal parent-subsidary ownership.
- The Select Specialty group of facilities is Tennessee's largest provider of long term acute care hospital ("LTACH") services. Select owns and operates five of the seven LTACH's in Tennessee: one in Kingsport, two in Knoxville, one in Nashville, and one in Memphis. All are on the campuses of urban medical centers that provide them with ancillary and support services. (For example, the applicant's sister facility in Knoxville is on the Covenant/Fort Sanders campus). Attachment A.4 contains a list of Select's Tennessee facilities, and additional information on the national company.

Service Area

- The primary service area of the project consists of twelve counties surrounding Knoxville: Knox, Sevier, Jefferson, Hamblen, Roane, Cocke, Blount, Loudon, Campbell,

Anderson, Scott, and Claiborne Counties. They contributed 86.4% of the applicant's admissions in the 12 months preceding the filing of this application.

Need

- The applicant currently leases and licenses a 33-bed unit on the fourth floor of Tennova Healthcare's tertiary hospital on East Oak Hill Avenue. Tennova has announced an intention to seek CON approval to move most of this hospital's beds and services to a different location in Knox County. Select Specialty has identified an opportunity to move immediately to Tennova's newest campus in Powell, farther north in Knox County. This is an excellent opportunity for Select Specialty, whether or not Tennova ever moves its tertiary facility.
- At its current location, Select has only 5 private rooms in its total complement of 33 licensed beds. It must often use semi-private rooms as single rooms, to isolate infectious patients or to separate patients of different genders. In periods of high demand, this can result in deferred admissions of patients needing to transfer to Select from short-term acute care hospitals. AIA design standards now recommend that hospitals have private rooms; and this is also a standard of care now in this community. At the North Knoxville facility, Select will have all private beds, enabling it to utilize its 33 beds more completely and efficiently. At the new location, patient rooms will also be larger, making it easier to serve ventilator and dialysis patients, and giving patients a more comfortable experience in their weeks of care. This newer building will not have the problems of temperature control, or water leakage problems around windows, that Select currently experiences in its wing of the much older East Oak Hill Avenue building.

Existing Resources

- The only other LTACH in East Tennessee is the applicant's sister hospital, located at Covenant Health's Fort Sanders campus. The closest other LTACH's are in Chattanooga (Hamilton County) in Southeast Tennessee, Kingsport (Sullivan County) in Upper East Tennessee, and in Nashville (Davidson County) in Central Middle Tennessee--which are more than an hour and a half drive from Knoxville.

Project Cost, Funding, Financial Feasibility, and Staffing

- The project cost for CON purposes, which includes the market value of the space being leased, is estimated at \$13,910,744. The actual capital cost, exclusive of leased space, is estimated at \$6,676,541.
- The applicant will fund the project in cash, using a reserve fund held on its behalf at the parent company.
- The applicant's facility currently operates with a positive margin, and will continue to have a positive margin in its new location.
- No new staff will be required by the relocation of the project.

B.II. PROVIDE A DETAILED NARRATIVE OF THE PROJECT BY ADDRESSING THE FOLLOWING ITEMS AS THEY RELATE TO THE PROPOSAL.

B.II.A. DESCRIBE THE CONSTRUCTION, MODIFICATION AND/OR RENOVATION OF THE FACILITY (EXCLUSIVE OF MAJOR MEDICAL EQUIPMENT COVERED BY T.C.A. 68-11-1601 *et seq.*) INCLUDING SQUARE FOOTAGE, MAJOR OPERATIONAL AREAS, ROOM CONFIGURATION, ETC.

Tennova's North Knoxville Medical Center has a 62-acre campus in the unincorporated community of Powell, in northern Knox County. On that campus is a medical office building (MOB) named Physician's Plaza B. On the first (middle) floor of that building, Select Specialty will lease a shelled-in area of approximately 23,624 usable square feet (USF), for build-out as a licensed Long Term Acute Care Hospital (LTACH). With use of common areas included, the lease will be for 25,701 rentable square feet (RSF). This LTACH will be the new location for Select Specialty Hospital--North Knoxville, which currently is on the fourth floor of Tennova's tertiary care hospital on East Oak Hill Avenue in Knoxville, 8.2 miles to the south.

The LTACH will be an independently licensed long term acute care hospital, with thirty-three (33) private patient rooms, supervised by two nursing stations. It will have its own admitting, medical records, therapy, and pharmacy areas, dayrooms, a family lounge, and appropriate support spaces. It will contract with the host hospital, North Knoxville Medical Center, to provide its patients with laboratory, imaging, surgery, dietary, and other services. Outside vendors may be contracted to provide housekeeping/janitorial, dialysis, and certain other services.

Table Two-A: Summary of Construction and Changes in Size	
	Total Square Feet
Usable Square Feet in Space Being Leased	23,624 USF
Area of New Construction	0
Area of Shelled Space Build-out	23,624 USF
Rentable SF Including Common Area Use	25,701 RSF

Table Two-B: Construction Costs of This Project			
	Buildout/Renovation Construction	New Construction	Total Project
Square Feet	23,624	0	23,624
Construction Cost	\$5,025,000	0	\$5,025,000
Constr. Cost PSF	\$212.71	0	\$212.71

If granted CON approval by the end of March, 2014, Select Specialty Hospital--North Knoxville will open at the proposed location no later than January 1, 2015. It will be licensed by the Board for Licensing Health Care Facilities as a 33-bed long term acute care hospital. It will be open 24 hours daily, throughout the year.

The applicant, Select Specialty Hospital--North Knoxville, Inc., is a Missouri corporation authorized to do business in Tennessee. It is wholly owned by Intensiva Healthcare Corporation (incorporated in Delaware), which is wholly owned by Select Medical Corporation (incorporated in Delaware), which is wholly owned by Select Medical Holdings Corporation (a publicly traded Delaware corporation).

The estimated project cost for CON purposes--which includes the market value of the MOB space being leased--is \$13,910,744. However, the actual capital cost will be \$6,676,541. It will be funded in cash by the applicant, using a reserve fund held on its behalf by the parent company.

APPLICANTS WITH HOSPITAL PROJECTS (CONSTRUCTION COST IN EXCESS OF \$5 MILLION) AND OTHER FACILITY PROJECTS (CONSTRUCTION COST IN EXCESS OF \$2 MILLION) SHOULD COMPLETE THE SQUARE FOOTAGE AND COSTS PER SQUARE FOOTAGE CHART.

UTILIZING THE ATTACHED CHART, APPLICANTS WITH HOSPITAL PROJECTS SHOULD COMPLETE PARTS A-E BY IDENTIFYING, AS APPLICABLE, NURSING UNITS, ANCILLARY AREAS, AND SUPPORT AREAS AFFECTED BY THIS PROJECT. PROVIDE THE LOCATION OF THE UNIT/SERVICE WITHIN THE EXISTING FACILITY ALONG WITH CURRENT SQUARE FOOTAGE, WHERE, IF ANY, THE UNIT/SERVICE WILL RELOCATE TEMPORARILY DURING CONSTRUCTION AND RENOVATION, AND THEN THE LOCATION OF THE UNIT/SERVICE WITH PROPOSED SQUARE FOOTAGE. THE TOTAL COST PER SQUARE FOOT SHOULD PROVIDE A BREAKOUT BETWEEN NEW CONSTRUCTION AND RENOVATION COST PER SQUARE FOOT. OTHER FACILITY PROJECTS NEED ONLY COMPLETE PARTS B-E.

See Attachment B.II.A for this chart.

PLEASE ALSO DISCUSS AND JUSTIFY THE COST PER SQUARE FOOT FOR THIS PROJECT.

Hospital construction projects approved by the HSDA in 2010-12 projected the following construction costs per SF:

Table Three: Hospital Construction Cost PSF Years: 2010 – 2012			
	Renovated Construction	New Construction	Total Construction
1 st Quartile	\$99.12/sq ft	\$234.64/sq ft	\$167.99/sq ft
Median	\$177.60/sq ft	\$259.66/sq ft	\$235.00/sq ft
3 rd Quartile	\$249.00/sq ft	\$307.80/sq ft	\$274.63/sq ft

Source: HSDA Registry, for approved CON applications 2010-2012,

Select Specialty's estimated renovation cost for this project is approximately \$212.71 PSF. That is consistent with the Statewide costs shown above, which range from \$99.12 to \$249 PSF for renovation.

IF THE PROJECT INVOLVES NONE OF THE ABOVE, DESCRIBE THE DEVELOPMENT OF THE PROPOSAL.

Not applicable.

B.II.B. IDENTIFY THE NUMBER AND TYPE OF BEDS INCREASED, DECREASED, CONVERTED, RELOCATED, DESIGNATED, AND/OR REDISTRIBUTED BY THIS APPLICATION. DESCRIBE THE REASONS FOR CHANGE IN BED ALLOCATIONS AND DESCRIBE THE IMPACT THE BED CHANGE WILL HAVE ON EXISTING SERVICES.

All thirty-three licensed acute care beds will be relocated in this project. The licensed complement will not change.

Table Four: Proposed Changes in Assignment of Licensed Hospital Beds Select Specialty Hospital--North Knoxville		
Licensed /Assigned Beds	Current	Proposed
Total Licensed Beds	33	33
Long Term Acute Care	33	33

B.II.C. AS THE APPLICANT, DESCRIBE YOUR NEED TO PROVIDE THE FOLLOWING HEALTH CARE SERVICES (IF APPLICABLE TO THIS APPLICATION):

1. ADULT PSYCHIATRIC SERVICES
2. ALCOHOL AND DRUG TREATMENT ADOLESCENTS >28 DAYS
3. BIRTHING CENTER
4. BURN UNITS
5. CARDIAC CATHETERIZATION SERVICES
6. CHILD AND ADOLESCENT PSYCHIATRIC SERVICES
7. EXTRACORPOREAL LITHOTRIPSY
8. HOME HEALTH SERVICES
9. HOSPICE SERVICES
10. RESIDENTIAL HOSPICE
11. ICF/MR SERVICES
12. LONG TERM CARE SERVICES.....

Not applicable.

B.II.D. DESCRIBE THE NEED TO CHANGE LOCATION OR REPLACE AN EXISTING FACILITY.

The Tennova Healthcare System, which owns the hospital where Select currently is located, has told Select that it will request CON approval to relocate most of the beds and services at that hospital to another location in Knox County. In anticipation of that, and to secure improved physical facilities at an acceptable lease cost, Select is proposing to move to medical office building (MOB) space that is now available on Tennova's North Knoxville Medical Center campus in Powell, several miles north. To move immediately will ensure Select Specialty Hospital--North Knoxville's continued presence in Knox County, and its continued relationships to Tennova and other hospitals in Knox County. Prompt relocation is prudent, while there is space at the north Knoxville campus. If most of its current host hospital moves away, it would not be feasible for an LTACH to remain at a location that might not provide daily access to diagnostic imaging, surgery, and specialist coverage and consultations.

The uncertainties about future availability of those support services are an important motivation for this application. Yet, even if Tennova does not relocate most of the host hospital, there are several advantages to Select's proposed relocation.

First, it will give Select access to more private rooms. Currently, it has only 5 private beds--only 15% of its 33-bed complement. The new location would be 100% private rooms. With more private beds, Select could fill more of its beds in times of peak demand. At the present location, semiprivate rooms must often be restricted to single occupancy in order to isolate infectious patients, or to separate patients of different genders. When referring physicians at area hospitals need to discharge patients to the Select facility, but find no beds available, this concerns them and concerns their patients' families. It also concerns the discharging hospitals, who may have to hold patients longer than appropriate while waiting for an LTACH bed to become available.

Second, the newer rooms that Select will create at the North Knoxville campus will be larger than the ones at its current location. The patient beds will have more space around them, making it more comfortable for staff and visitors to move within the room. This is also beneficial for patients who need large equipment in the room--such as dialysis patients and ventilator patients. And newer, more spacious rooms will be more cheerful to patients who must occupy these beds for weeks at a time. Such larger, private accommodations have become a standard of care in the community, and are recommended by AIA design standards adopted by the Board for Licensing Health Care Facilities (Tennessee Department of Health).

Third, the LTACH is now located on the top floor of the oldest wing of its host hospital. The building has structural problems that allow rain to seep through ceilings and windows, damaging plaster that must be frequently repaired, and increasing labor costs.

Fourth, it is difficult in this old hospital wing to adequately control heat and air conditioning in patient rooms. Inability to closely regulate room temperature is not optimal for the care of fragile patients.

The potential to improve operational efficiency and functionality at the new site, combined with the obvious necessity to relocate from a facility that may well close in a few years, make this a much-needed and very appropriate relocation project.

B.II.E. DESCRIBE THE ACQUISITION OF ANY ITEM OF MAJOR MEDICAL EQUIPMENT (AS DEFINED BY THE AGENCY RULES AND THE STATUTE) WHICH EXCEEDS A COST OF \$1.5 MILLION; AND/OR IS A MAGNETIC RESONANCE IMAGING SCANNER (MRI), POSITRON EMISSION TOMOGRAPHY (PET) SCANNER, EXTRACORPOREAL LITHOTRIPTER AND/OR LINEAR ACCELERATOR BY RESPONDING TO THE FOLLOWING:

1. For fixed site major medical equipment (not replacing existing equipment):
 - a. Describe the new equipment, including:
 1. Total Cost (As defined by Agency Rule);
 2. Expected Useful Life;
 3. List of clinical applications to be provided; and
 4. Documentation of FDA approval.
 - b. Provide current and proposed schedule of operations.
2. For mobile major medical equipment:
 - a. List all sites that will be served;
 - b. Provide current and/or proposed schedule of operations;
 - c. Provide the lease or contract cost;
 - d. Provide the fair market value of the equipment; and
 - e. List the owner for the equipment.
3. Indicate applicant's legal interest in equipment (e.g., purchase, lease, etc.) In the case of equipment purchase, include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Not applicable. The project contains no major medical equipment.

B.III.A. ATTACH A COPY OF THE PLOT PLAN OF THE SITE ON AN 8-1/2" X 11" SHEET OF WHITE PAPER WHICH MUST INCLUDE:

1. SIZE OF SITE (IN ACRES);
2. LOCATION OF STRUCTURE ON THE SITE;
3. LOCATION OF THE PROPOSED CONSTRUCTION; AND
4. NAMES OF STREETS, ROADS OR HIGHWAYS THAT CROSS OR BORDER THE SITE.

PLEASE NOTE THAT THE DRAWINGS DO NOT NEED TO BE DRAWN TO SCALE. PLOT PLANS ARE REQUIRED FOR ALL PROJECTS.

See Attachment B.III.A.

B.III.B.1. DESCRIBE THE RELATIONSHIP OF THE SITE TO PUBLIC TRANSPORTATION ROUTES, IF ANY, AND TO ANY HIGHWAY OR MAJOR ROAD DEVELOPMENTS IN THE AREA. DESCRIBE THE ACCESSIBILITY OF THE PROPOSED SITE TO PATIENTS/CLIENTS.

The site is within $\frac{3}{4}$ of a mile of Exit 112 on I-75, north of downtown Knoxville. It is on the campus of North Knoxville Medical Center, a well-known hospital in the area. The interstate provides rapid access to residents of the entire primary service area. Table Five below shows that the new site is within 60 minutes' drive of the principal communities in all eleven of the primary service area counties around Knox County. The unweighted average drive time from those communities to the proposed site is 2 minutes longer than to Select's current location. But this is not significant, because the great majority of patients admitted to Select Specialty Hospitals are transported directly from acute care hospitals in Knox County itself, not from their county of residence. In January through October of CY2013, approximately 84.5% of this LTACH's admissions were transported directly from a Knox County general hospital. For family members visiting patients, drive time can be a significant issue; but fortunately the difference in this situation (two minutes) will be negligible.

Table Five: Mileage and Drive Times From Select Specialty Hospital--North Knoxville's Current and Proposed Sites to Major Communities in the Primary Service Area Outside of Knox County					
County	City	To Proposed Site		To Current Site	
		Miles	Minutes	Miles	Minutes
Anderson	Oak Ridge	19.4	31	26.4	31
Blount	Maryville	25.0	34	19.6	28
Campbell	LaFollette	31.3	35	38.3	43
Claiborne	Tazewell	41.4	58	43.5	62
Cocke	Newport	55.3	57	48.2	50
Hamblen	Morristown	55.0	58	47.9	52
Jefferson	Jefferson City	35.4	46	28.3	39
Loudon	Loudon	39.8	48	36.5	44
Roane	Kingston	41.3	42	38.0	38
Scott	Oneida	53.4	60	60.3	67
Sevier	Sevierville	35.8	44	28.7	37
Unweighted Average Time			46.6 min.		44.6 min.

Source: Google Maps, 11-21-13

B.IV. ATTACH A FLOOR PLAN DRAWING FOR THE FACILITY WHICH INCLUDES PATIENT CARE ROOMS (NOTING PRIVATE OR SEMI-PRIVATE), ANCILLARY AREAS, EQUIPMENT AREAS, ETC.

See attachment B.IV.

IV. FOR A HOME CARE ORGANIZATION, IDENTIFY

- 1. EXISTING SERVICE AREA (BY COUNTY);**
- 2. PROPOSED SERVICE AREA (BY COUNTY);**
- 3. A PARENT OR PRIMARY SERVICE PROVIDER;**
- 4. EXISTING BRANCHES AND/OR SUB-UNITS; AND**
- 5. PROPOSED BRANCHES AND/OR SUBUNITS.**

Not applicable. The application is not for a home care organization.

C(I) NEED**C(I).1. DESCRIBE THE RELATIONSHIP OF THIS PROPOSAL TO THE IMPLEMENTATION OF THE STATE HEALTH PLAN AND TENNESSEE'S HEALTH: GUIDELINES FOR GROWTH.**

A. PLEASE PROVIDE A RESPONSE TO EACH CRITERION AND STANDARD IN CON CATEGORIES THAT ARE APPLICABLE TO THE PROPOSED PROJECT. DO NOT PROVIDE RESPONSES TO GENERAL CRITERIA AND STANDARDS (PAGES 6-9) HERE.

B. APPLICATIONS THAT INCLUDE A CHANGE OF SITE FOR A HEALTH CARE INSTITUTION, PROVIDE A RESPONSE TO GENERAL CRITERION AND STANDARDS (4)(a-c).

Project-Specific Review Criteria: Construction, Renovation, Expansion, and Replacement of Health Care Institutions

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

Not applicable. The proposed relocation will not change this hospital's scope of services or its licensed bed complement or bed assignment.

2. For relocation or replacement of an existing licensed healthcare institution:

a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

Not applicable. The applicant does not own its current premises on East Oak Hill Avenue. It leases it from another licensed hospital, a "host" hospital, which plans to vacate most of the East Oak Hill Avenue facility after obtaining CON approval to relocate most of its acute care beds and services to another location in Knox County.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant and its affiliated facility Select Specialty Hospital--Knoxville are the only two LTACH's in the Knoxville region. They are affiliated with the two largest hospital systems in the region: Tennova, the former Mercy system; and Covenant Health.

The two LTACH's currently operate 33 and 35 beds, respectively, which are utilized routinely at between 70% and 80% occupancy. The North facility, which proposes this relocation, has averaged approximately 77% occupancy over the past two years, and is averaging almost 78% occupancy this year. So there is a clear present and future demand for the project.

3. For renovation or expansion of an existing licensed healthcare institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

Not applicable.

b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

Not applicable.

General Criteria for Change of Site

(These may not be applicable to this situation, which involves an existing rather than a proposed new institution, but the following responses are offered.)

(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, the Agency may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed site.

The practical reason to relocate this hospital is that the applicant's landlord and host hospital has indicated a desire to close most of its services on East Oak Hill Avenue where the applicant currently leases space. If that occurs, it is not clear whether Select will continue to have 24/7 availability of on-site ancillary support services that are essential for long term acute care patients. So rather than take that risk, Select prefers to move immediately, while there is an excellent alternative space available on Tennova's Powell campus, in an MOB connected to a relatively new full-service general hospital that will offer 24/7 ancillary support services indefinitely.

(b) *Economic Factors.* The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

There is no significant travel time difference between the new site and the old site, for persons driving in from primary service area counties surrounding Knoxville. See Table Five and the related discussion, above. The proposed change of location for the LTACH will not raise accessibility issues or any other type of economic issue.

(c) *Contribution to the orderly development of health care facilities and/or services.* The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

No such delays can be identified. The MOB space proposed as the new LTACH location is shelled space. It is immediately available to lease and build out as a long term acute care hospital. The terms of the lease have been negotiated and the lease will be executed conditional on obtaining CON approval.

The Framework for Tennessee's Comprehensive State Health Plan

Five Principles for Achieving Better Health

The following Five Principles for Achieving Better Health serve as the basic framework for the State Health Plan. After each principle, the applicant states how this CON application supports the principle, if applicable.

1. Healthy Lives

The purpose of the State Health Plan is to improve the health of Tennesseans.

Every person's health is the result of the interaction of individual behaviors, society, the environment, economic factors, and our genetic endowment. The State Health Plan serves to facilitate the collaboration of organizations and their ideas to help address health at these many levels.

The eastern part of Tennessee has three distinct acute care regions--Upper East Tennessee centered on Tri-Cities, Southeast Tennessee centered on Chattanooga, and East Tennessee centered on Knoxville. Select Specialty Hospital--North Knoxville is one of only two LTACH facilities in the entire East Tennessee region. These two LTACH's play an important role in working with the region's short-term acute care hospitals. The LTACH's relieve general hospitals of the financial burden of providing weeks of costly, uncompensated care to hundreds of fragile patients who need acute care for many more days than the DRG system was designed to pay for. Collaboration with short term hospitals, to reduce costs of overall hospital care, requires available beds at the LTACH which is chosen by the patient and the discharging physician. This project supports that collaboration and supports this criterion of the State Health Plan. By increasing Select's private bed accommodations and its patient room sizes, without increasing its total bed license, the project will provide care in a more efficient, attractive, and functional setting.

2. Access to Care

Every citizen should have reasonable access to health care.

Many elements impact one's access to health care, including existing health status, employment, income, geography, and culture. The State Health Plan can provide standards for reasonable access, offer policy direction to improve access, and serve a coordinating role to expand health care access.

The project does not diminish either the physical or the financial accessibility of this established provider.

3. Economic Efficiencies

The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies and the continued development of the state's health care system. The State Health Plan should work to identify opportunities to improve the efficiency of the state's health care system and to encourage innovation and competition.

The project will increase the efficiency of this LTACH's operation by increasing its private room mix from 15% (5 beds) to 100% (33 beds). This will allow all beds to be available for admission without regard to issues of patient cross-infection or the need to separate patients of different gender. In periods of peak demand this will be helpful to patients needing to be discharged to Select from area general hospitals.

4. Quality of Care

Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers. Health care providers are held to certain professional standards by the state's licensure system. Many health care stakeholders are working to improve their quality of care through adoption of best practices and data-driven evaluation.

Select Specialty Hospital--North Knoxville complies with quality standards of State licensure and the Joint Commission. Also, by providing acute patients with private beds, this facility will be moving into compliance with AIA recommendations as well as community expectations, and will be lessening the risk of cross-infections.

5. Health Care Workforce

The state should support the development, recruitment, and retention of a sufficient and quality health care workforce. The state should consider developing a comprehensive approach to ensure the existence of a sufficient, qualified health care workforce, taking into account issues regarding the number of providers at all levels and in all specialty and focus areas, the number of professionals in teaching positions, the capacity of medical, nursing, allied health and other educational institutions, state and federal laws and regulations impacting capacity programs, and funding.

Select Specialty Hospital--North Knoxville contributes to the education of health care professionals by its affiliations for training students in programs at several colleges and universities in Tennessee. See Section C.III. (6) of this application.

C(I).2. DESCRIBE THE RELATIONSHIP OF THIS PROJECT TO THE APPLICANT'S LONG-RANGE DEVELOPMENT PLANS, IF ANY.

This facility does not prepare formal long-range development plans.

C(I).3. IDENTIFY THE PROPOSED SERVICE AREA AND JUSTIFY THE REASONABLENESS OF THAT PROPOSED AREA. SUBMIT A COUNTY-LEVEL MAP INCLUDING THE STATE OF TENNESSEE CLEARLY MARKED TO REFLECT THE SERVICE AREA. PLEASE SUBMIT THE MAP ON A 8-1/2" X 11" SHEET OF WHITE PAPER MARKED ONLY WITH INK DETECTABLE BY A STANDARD PHOTOCOPIER (I.E., NO HIGHLIGHTERS, PENCILS, ETC.).

Select Specialty Hospital--North Knoxville serves a wide region of counties around Knoxville. In the twelve months preceding the filing of this application, the facility admitted patients from 20 Tennessee counties and two other States. Approximately 86.4% of its admissions came from twelve counties surrounding Knoxville: Knox, Sevier, Jefferson, Hamblen, Roane, Cocke, Blount, Loudon, Campbell, Anderson, Scott, and Claiborne Counties.

The applicant believes that this group of counties will continue to be its primary service area. Table Six on the following page shows the admissions received this year from each of them and from the secondary service area, and uses the same percentages to project admissions for CY2015 and CY2016 at the proposed location at Tennova's North Knoxville Medical Center.

A service area map and a map showing the location of the service within the State of Tennessee are provided as Attachments C, Need--3 at the back of the application.

**Table Six: Patient Origin Projection
Select Specialty Hospital--North Knoxville
CY2015-CY2016**

County	Admissions Nov 2012 to Oct 2013	Percent of Total Admissions	Cumulative Percent of Total Admissions	Year One CY2015 Admissions	Year Two CY2016 Admissions
<i>Primary Service Area (PSA) Counties</i>					
Knox	133	36.04%	36.04%	138.8	140.2
Sevier	30	8.13%	44.17%	31.3	31.6
Jefferson	24	6.50%	50.68%	25.0	25.3
Hamblen	18	4.88%	55.56%	18.8	19.0
Roane	18	4.88%	60.43%	18.8	19.0
Cocke	17	4.61%	65.04%	17.7	17.9
Blount	16	4.34%	69.38%	16.7	16.9
Loudon	16	4.34%	73.71%	16.7	16.9
Campbell	15	4.07%	77.78%	15.7	15.8
Anderson	14	3.79%	81.57%	14.6	14.8
Scott	10	2.71%	84.28%	10.4	10.5
Claiborne	8	2.17%	86.45%	8.3	8.4
<i>PSA Subtotal</i>	319	86.45%		332.8	336.3
<i>Secondary Service Area (SSA) Counties and States</i>					
8 Other TN Counties	45	12.20%	86.45%	47.0	47.4
2 Other States	5	1.36%	87.80%	5.2	5.3
<i>SSA Subtotal</i>	50	13.55%		52.2	52.7
<i>Grand Total</i>	369	100.00%	100.00%	385.0	389.0

Source: Hospital records and management projections.

C(I).4.A DESCRIBE THE DEMOGRAPHICS OF THE POPULATION TO BE SERVED BY THIS PROPOSAL.

Please see Table Seven on the following page. The primary service area population exceeds one million persons--almost 17% of the total State population. It is increasing faster than the State population--4.2% vs. 3.7% Statewide.

This LTACH facility is focused more on the elderly 65+ patient than are most hospitals. The number of elderly residents in the primary service area will increase 13.8% between now and CY2017, while the Statewide increase for that age cohort will be 12.8%. The elderly population will reach 18.2% of the total population by CY2017--higher than the projected Statewide average of 15.8%.

Although Knox, Anderson, and Blount Counties have median incomes higher than the State average, the primary service area as a whole has a lower median income (\$39,650) than the State (\$43,939). The area has a lower percentage of the population enrolled in TennCare (17% vs. 18.3% for the State); but a slightly higher percentage of service area population has incomes below the poverty level (17.2% vs. 16.9% Statewide).

**Table Seven: Demographic Characteristics of Primary Service Area
Select Specialty Hospital--North Knoxville
2013-2017**

Demographic	Anderson County	Blount County	Campbell County	Clairborne County	Cocke County	Hamblen County	Jefferson County	Knox County	Loudon County	Roane County	Scott County	Sevier County	Tennessee PSA	STATE OF TENNESSEE
Median Age-2010 US Census	42.6	41.4	41.7	41.1	42.9	39.6	40.8	37.2	46.0	44.9	38.1	40.9	35	38.0
Total Population-2013	76,182	126,809	41,163	32,457	36,330	63,763	53,006	448,093	50,356	53,918	21,986	93,637	1,097,700	6,528,014
Total Population-2017	77,582	133,389	42,315	33,110	38,143	65,181	56,054	470,092	52,629	54,310	21,931	98,873	1,143,609	6,772,022
Total Population-% Change 2013 to 2017	1.8%	5.2%	2.8%	2.0%	5.0%	2.2%	5.8%	4.9%	4.5%	0.7%	-0.3%	5.6%	4.2%	3.7%
Age 65+ Population-2013	14,136	22,341	7,459	5,742	6,548	10,973	9,597	63,654	12,268	11,099	3,405	16,084	183,306	950,177
% of Total Population	18.6%	17.6%	18.1%	17.7%	18.0%	17.2%	18.1%	14.2%	24.4%	20.6%	15.5%	17.2%	16.7%	14.6%
Age 65+ Population-2017	15,841	25,121	8,004	6,258	6,848	11,855	10,977	75,096	13,850	12,211	3,779	18,679	208,519	1,072,143
% of Total Population	20.4%	18.8%	18.9%	18.9%	18.0%	18.2%	19.6%	16.0%	26.3%	22.5%	17.2%	18.9%	18.2%	15.8%
Age 65+ Population- % Change 2013-2017	12.1%	12.4%	7.3%	9.0%	4.6%	8.0%	14.4%	18.0%	12.9%	10.0%	11.0%	16.1%	13.8%	12.8%
Median Household Income	\$44,872	\$47,298	\$31,377	\$33,178	\$28,563	\$39,604	\$38,015	\$47,277	\$50,458	\$43,129	\$29,454	\$42,569	\$39,650	\$43,989
TennCare Enrollees (07/13)	13,899	18,538	11,633	7,814	9,932	13,161	9,942	62,758	6,980	9,642	7,063	15,035	186,397	1,193,721
Percent of 2012 Population Enrolled in TennCare	18.2%	14.6%	28.3%	24.1%	27.3%	20.6%	18.8%	14.0%	13.9%	17.9%	32.1%	16.1%	17.0%	18.3%
Persons Below Poverty Level (2012)	12,799	15,598	9,509	7,335	9,773	11,286	10,018	61,389	#VALUE!	8,196	5,716	12,641	189,079	1,103,234
Persons Below Poverty Level As % of Population (US Census)	15.8%	12.3%	23.1%	22.6%	26.9%	17.7%	18.9%	13.7%	14.0%	15.2%	26.0%	13.5%	17.2%	16.9%

Sources: TDH Population Projections, May 2013; U.S. Census QuickFacts and FactFinder2;
TennCare Bureau. PSA data is unweighted average or total of county data.
NR means not reported in U.S. Census source document.

C(I).4.B. DESCRIBE THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION, INCLUDING HEALTH DISPARITIES, THE ACCESSIBILITY TO CONSUMERS, PARTICULARLY THE ELDERLY, WOMEN, RACIAL AND ETHNIC MINORITIES, AND LOW-INCOME GROUPS. DOCUMENT HOW THE BUSINESS PLANS OF THE FACILITY WILL TAKE INTO CONSIDERATION THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION.

The service area population does not seem to have special care needs differing from those in other areas of Tennessee. Of all patients discharged from short term acute care hospital stays, there are always a small number who do not thrive. They require prolonged additional acute care--which is provided with Medicare's approval in a "long term" acute care hospital, or "LTACH". Their stays in LTACH's average between three and four weeks, in accordance with Medicare expectations. The great majority (4 out of 5) are elderly, vulnerable, Medicare patients. This facility has served these patients for years, and seeks to continue serving them at a location that is more modern and comfortable, and more efficient to operate.

C(I).5. DESCRIBE THE EXISTING OR CERTIFIED SERVICES, INCLUDING APPROVED BUT UNIMPLEMENTED CON'S, OF SIMILAR INSTITUTIONS IN THE SERVICE AREA. INCLUDE UTILIZATION AND/OR OCCUPANCY TRENDS FOR EACH OF THE MOST RECENT THREE YEARS OF DATA AVAILABLE FOR THIS TYPE OF PROJECT. BE CERTAIN TO LIST EACH INSTITUTION AND ITS UTILIZATION AND/OR OCCUPANCY INDIVIDUALLY. INPATIENT BED PROJECTS MUST INCLUDE THE FOLLOWING DATA: ADMISSIONS OR DISCHARGES, PATIENT DAYS, AND OCCUPANCY. OTHER PROJECTS SHOULD USE THE MOST APPROPRIATE MEASURES, E.G., CASES, PROCEDURES, VISITS, ADMISSIONS, ETC.

Table Eight on the following page shows the utilization of both LTACH's in the primary service area, as reported in Joint Annual Reports for 2010-2012. Both are Select Specialty facilities. It also provides annualized utilization of both facilities in 2013, based on their utilization during the first ten months of 2013. For the past several years, the two facilities have operated at a combined occupancy of approximately 75% to 78%. For very small units with a high percentage of semi-private rooms, this is very good occupancy.

**Table Eight : Long Term Acute Care Bed Utilization in Primary Service Area
2010-2013 Annualized**

2010 Joint Annual Reports of Hospitals								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	385	9,620	25	26	75.3%
47762	Select Specialty Hospital-North Knoxville	Knox	33	346	8,905	26	24	73.9%
	SERVICE AREA TOTALS		68	731	18,525	25	51	74.6%
2011 Joint Annual Reports of Hospitals								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	376	9,709	26	27	76.0%
47762	Select Specialty Hospital-North Knoxville	Knox	33	355	9,222	26	25	76.6%
	SERVICE AREA TOTALS		68	731	18,931	26	52	76.3%
2012 Joint Annual Reports of Hospitals (Provisional)								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	418	10,153	24	28	79.5%
47762	Select Specialty Hospital-North Knoxville	Knox	33	354	9,127	26	25	75.8%
	SERVICE AREA TOTALS		68	772	19,280	25	53	77.7%
2013 Select Specialty Hospital Utilization Annualized from Jan-Oct Data								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	412	9,850	24	27	77.1%
47762	Select Specialty Hospital-North Knoxville	Knox	33	381	9,447	25	26	78.4%
	SERVICE AREA TOTALS		68	793	19,297	24	53	77.7%

C(I).6. PROVIDE APPLICABLE UTILIZATION AND/OR OCCUPANCY STATISTICS FOR YOUR INSTITUTION FOR EACH OF THE PAST THREE (3) YEARS AND THE PROJECTED ANNUAL UTILIZATION FOR EACH OF THE TWO (2) YEARS FOLLOWING COMPLETION OF THE PROJECT. ADDITIONALLY, PROVIDE THE DETAILS REGARDING THE METHODOLOGY USED TO PROJECT UTILIZATION. THE METHODOLOGY MUST INCLUDE DETAILED CALCULATIONS OR DOCUMENTATION FROM REFERRAL SOURCES, AND IDENTIFICATION OF ALL ASSUMPTIONS.

Table Nine: Historical and Projected Utilization Select Specialty Hospital--North Knoxville CY2010-CY2016						
Year	Beds	Admissions	Patient Days	Average Daily Census	Patient Days of Capacity	Average Annual Occupancy
CY2010	33	346	8,905	24.4	12,045	73.9%
CY2011	33	355	9,222	25.3	12,045	76.6%
CY2012	33	354	9,127	25.0	12,045	75.8%
Annualized CY2013	33	381	9,447	25.9	12,045	78.4%
Projected CY2014	33	381	9,447	25.9	12,045	78.4%
Projected Yr 1 CY2015	33	385	9,548	26.2	12,045	79.3%
Projected Yr 2 CY2016	33	389	9,647	26.4	12,045	80.1%

Source: Hospital management.

CY2013 admissions and patient days were annualized on the basis of January-October 2013 admissions and patient days. CY2014 utilization, at the current location, was projected to remain level with CY2013 utilization. CY2015 and CY2016 will be Select's first two years at the new location. For each of those two years, admissions were increased over the prior year by 1%. That is in recognition of the all-private bed facility's ability to accept more peak period admissions than the present facility can accept in peak periods. This modest projected growth in admissions will increase average daily census by only 0.5 patients from CY2013 to CY2016. However, on such a very small bed complement (33 beds), that will increase average annual occupancy to approximately 80%.

C(II)1. PROVIDE THE COST OF THE PROJECT BY COMPLETING THE PROJECT COSTS CHART ON THE FOLLOWING PAGE. JUSTIFY THE COST OF THE PROJECT.

- **ALL PROJECTS SHOULD HAVE A PROJECT COST OF AT LEAST \$3,000 ON LINE F (MINIMUM CON FILING FEE). CON FILING FEE SHOULD BE CALCULATED ON LINE D.**

- **THE COST OF ANY LEASE (BUILDING, LAND, AND/OR EQUIPMENT) SHOULD BE BASED ON FAIR MARKET VALUE OR THE TOTAL AMOUNT OF THE LEASE PAYMENTS OVER THE INITIAL TERM OF THE LEASE, WHICHEVER IS GREATER. NOTE: THIS APPLIES TO ALL EQUIPMENT LEASES INCLUDING BY PROCEDURE OR "PER CLICK" ARRANGEMENTS. THE METHODOLOGY USED TO DETERMINE THE TOTAL LEASE COST FOR A "PER CLICK" ARRANGEMENT MUST INCLUDE, AT A MINIMUM, THE PROJECTED PROCEDURES, THE "PER CLICK" RATE AND THE TERM OF THE LEASE.**

- **THE COST FOR FIXED AND MOVEABLE EQUIPMENT INCLUDES, BUT IS NOT NECESSARILY LIMITED TO, MAINTENANCE AGREEMENTS COVERING THE EXPECTED USEFUL LIFE OF THE EQUIPMENT; FEDERAL, STATE, AND LOCAL TAXES AND OTHER GOVERNMENT ASSESSMENTS; AND INSTALLATION CHARGES, EXCLUDING CAPITAL EXPENDITURES FOR PHYSICAL PLANT RENOVATION OR IN-WALL SHIELDING, WHICH SHOULD BE INCLUDED UNDER CONSTRUCTION COSTS OR INCORPORATED IN A FACILITY LEASE.**

- **FOR PROJECTS THAT INCLUDE NEW CONSTRUCTION, MODIFICATION, AND/OR RENOVATION; DOCUMENTATION MUST BE PROVIDED FROM A CONTRACTOR AND/OR ARCHITECT THAT SUPPORT THE ESTIMATED CONSTRUCTION COSTS.**

The architect's letter supporting the construction cost estimate is provided in Attachment C, Economic Feasibility--1.

On the Project Costs Chart, following this response:

Line A.1, A&E fees, were estimated by Select Medical Corporation's development staff at 7% of construction costs (in line A5).

Line A.2, legal, administrative, and consultant fees, are an approximation based on Select Medical Corporation's experience with similar projects.

Line A.5, construction cost, was estimated by Select Medical Corporation's development staff, and reviewed and validated by the project architect.

Line A.6, contingency, was estimated by Select Medical Corporation's development staff at 8% of construction costs in line A.5.

Line A.7 includes both fixed and moveable equipment costs, estimated by Select Medical Corporation's development staff. There is no unit of clinical equipment exceeding \$50,000 in capital cost.

Line B.1 is the fair market value of the facility being leased, calculated in the two alternative ways required by HSDA rules. The "leasehold value" method was the larger of these two alternative calculations and was used in the Project Cost Chart.

Lease Outlay Method:

25,701 RSF (rentable SF) X \$21.97 PRSF in lease year one, increasing at 3% per year in lease years two through ten = a total lease outlay of \$6,473,090.57.

Leasehold Value Method:

25,701 RSF leased / 77,449 GSF total building X \$21,800,000 recent building sale price, = \$7,234,203.15 pro rata value of the space to be leased.

Line C.1, interim financing, has no entry because no construction financing will be required. The applicant will use its cash reserves to pay development costs as they come due.

PROJECT COSTS CHART— SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

A. Construction and equipment acquired by purchase:

1. Architectural and Engineering Fees	7% of A5	\$	351,750
2. Legal, Administrative, Consultant Fees (Excl CON Filing)			50,000
3. Acquisition of Site			0
4. Preparation of Site			0
5. Construction Cost	23,624 USF X \$212.71 PSF		5,025,000
6. Contingency Fund	8% of A5		402,000
7. Fixed Equipment (Not included in Construction Contract)			666,562
8. Moveable Equipment (List all equipment over \$50,000)			150,000
9. Other (Specify) _____			0

B. Acquisition by gift, donation, or lease:

1. Facility (inclusive of building and land)	FMV of leasehold	7,234,203
2. Building only		0
3. Land only		0
4. Equipment (Specify) _____		0
5. Other (Specify) _____		0

C. Financing Costs and Fees:

1. Interim Financing	0
2. Underwriting Costs	0
3. Reserve for One Year's Debt Service	0
4. Other (Specify) _____	0

D. Estimated Project Cost
(A+B+C)

13,879,515

E. CON Filing Fee

31,229

F. Total Estimated Project Cost (D+E)

TOTAL \$ 13,910,744

Actual Capital Cost
Section B FMV6,676,541
7,234,203

C(II).2. IDENTIFY THE FUNDING SOURCES FOR THIS PROJECT.

a. PLEASE CHECK THE APPLICABLE ITEM(S) BELOW AND BRIEFLY SUMMARIZE HOW THE PROJECT WILL BE FINANCED. (DOCUMENTATION FOR THE TYPE OF FUNDING MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND IDENTIFIED AS ATTACHMENT C, ECONOMIC FEASIBILITY--2).

 A. Commercial Loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;

 B. Tax-Exempt Bonds--copy of preliminary resolution or a letter from the issuing authority, stating favorable contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;

 C. General Obligation Bonds--Copy of resolution from issuing authority or minutes from the appropriate meeting;

 D. Grants--Notification of Intent form for grant application or notice of grant award;

 x **E. Cash Reserves--Appropriate documentation from Chief Financial Officer; or**

 F. Other--Identify and document funding from all sources.

The applicant has sufficient cash in reserve to pay the \$6,676,541 capital costs required to implement the project. The hospital's balance sheet in Attachment C, Economic Feasibility--2 has a line item of \$9,878,274 under "Affiliates". This is a reserve account held for this specific hospital by the parent company. It is available to the applicant for this authorized project.

Documentation of the hospital's commitment to fund and implement the project, using this reserve account, is provided in Attachment C, Economic Feasibility--2.

C(II).3. DISCUSS AND DOCUMENT THE REASONABLENESS OF THE PROPOSED PROJECT COSTS. IF APPLICABLE, COMPARE THE COST PER SQUARE FOOT OF CONSTRUCTION TO SIMILAR PROJECTS RECENTLY APPROVED BY THE HSDA.

The justification of costs was provided in an earlier section, which is repeated here:

Hospital construction projects approved by the HSDA in 2010-12 projected the following construction costs per SF:

Table Three: Hospital Construction Cost PSF Years: 2010 – 2012			
	Renovated Construction	New Construction	Total Construction
1 st Quartile	\$99.12/sq ft	\$234.64/sq ft	\$167.99/sq ft
Median	\$177.60/sq ft	\$259.66/sq ft	\$235.00/sq ft
3 rd Quartile	\$249.00/sq ft	\$307.80/sq ft	\$274.63/sq ft

Source: HSDA Registry, for approved CON applications 2010-2012,

Select Specialty's estimated renovation cost for this project is approximately \$212.71 PSF. That is consistent with the Statewide costs shown above, which range from \$99.12 to \$249 PSF for renovation (which includes building out of existing shelled space).

C(II).4. COMPLETE HISTORICAL AND PROJECTED DATA CHARTS ON THE FOLLOWING TWO PAGES--DO NOT MODIFY THE CHARTS PROVIDED OR SUBMIT CHART SUBSTITUTIONS. HISTORICAL DATA CHART REPRESENTS REVENUE AND EXPENSE INFORMATION FOR THE LAST THREE (3) YEARS FOR WHICH COMPLETE DATA IS AVAILABLE FOR THE INSTITUTION. PROJECTED DATA CHART REQUESTS INFORMATION FOR THE TWO YEARS FOLLOWING COMPLETION OF THIS PROPOSAL. PROJECTED DATA CHART SHOULD INCLUDE REVENUE AND EXPENSE PROJECTIONS FOR THE PROPOSAL ONLY (I.E., IF THE APPLICATION IS FOR ADDITIONAL BEDS, INCLUDE ANTICIPATED REVENUE FROM THE PROPOSED BEDS ONLY, NOT FROM ALL BEDS IN THE FACILITY).

See the following pages for these charts, with notes where applicable.

HISTORICAL DATA CHART -- SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

Give information for the last three (3) years for which complete data are available for the facility or agency.

The fiscal year begins in JANUARY.

		Year 2011	Year 2012	Ann'd Jan-Oct Year 2013
		<u>355</u>	<u>354</u>	<u>381</u>
	Admissions			
	Patient Days	<u>9,222</u>	<u>9,127</u>	<u>9,447</u>
A.	Utilization Data			
B.	Revenue from Services to Patients			
1.	Inpatient Services	\$ <u>30,791,694</u>	<u>33,374,708</u>	<u>35,219,846</u>
2.	Outpatient Services	<u>0</u>		
3.	Emergency Services	<u>0</u>		
4.	Other Operating Revenue	<u>10,919</u>	<u>14,019</u>	<u>17,320</u>
	(Specify) <u>Medical Records Copying & Interest</u>			
	Gross Operating Revenue	\$ <u>30,802,613</u>	\$ <u>33,388,727</u>	\$ <u>35,237,166</u>
C.	Deductions for Operating Revenue			
1.	Contractual Adjustments	\$ <u>18,234,736</u>	<u>20,218,049</u>	<u>22,101,441</u>
2.	Provision for Charity Care	<u>0</u>		
3.	Provisions for Bad Debt	<u>83,223</u>	<u>284,399</u>	<u>106,528</u>
	Total Deductions	\$ <u>18,317,959</u>	\$ <u>20,502,448</u>	\$ <u>22,207,969</u>
	NET OPERATING REVENUE	\$ <u>12,484,654</u>	\$ <u>12,886,279</u>	\$ <u>13,029,197</u>
D.	Operating Expenses			
1.	Salaries and Wages	\$ <u>5,233,637</u>	<u>5,357,599</u>	<u>5,704,539</u>
2.	Physicians Salaries and Wages	<u>0</u>	<u>0</u>	<u>0</u>
3.	Supplies	<u>1,394,425</u>	<u>1,320,639</u>	<u>1,271,013</u>
4.	Taxes	<u>770,904</u>	<u>811,991</u>	<u>754,301</u>
5.	Depreciation	<u>111,422</u>	<u>89,080</u>	<u>111,472</u>
6.	Rent	<u>340,532</u>	<u>340,532</u>	<u>261,332</u>
7.	Interest, other than Capital			
8.	Management Fees			
a.	Fees to Affiliates	<u>747,585</u>	<u>636,721</u>	<u>650,000</u>
b.	Fees to Non-Affiliates			
9.	Other Expenses (Specify) <u>See notes page</u>	<u>2,812,727</u>	<u>2,890,955</u>	<u>3,172,829</u>
	Total Operating Expenses	\$ <u>11,411,232</u>	\$ <u>11,447,518</u>	\$ <u>11,925,487</u>
E.	Other Revenue (Expenses) -- Net (Specify)	\$	\$	\$
	NET OPERATING INCOME (LOSS)	\$ <u>1,073,422</u>	\$ <u>1,438,761</u>	\$ <u>1,103,710</u>
F.	Capital Expenditures			
1.	Retirement of Principal	\$	\$	\$
2.	Interest			
	Total Capital Expenditures	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
	NET OPERATING INCOME (LOSS)			
	LESS CAPITAL EXPENDITURES	\$ <u>1,073,422</u>	\$ <u>1,438,761</u>	\$ <u>1,103,710</u>

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PROJECTED DATA CHART-- SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

Give information for the two (2) years following the completion of this proposal.

The fiscal year begins in JANUARY.

		CY 2015	CY 2016
	Admissions	<u>385</u>	<u>389</u>
A. Utilization Data	Patient Days	<u>9,548</u>	<u>9,647</u>
B. Revenue from Services to Patients			
1. Inpatient Services		\$ <u>35,594,129</u>	\$ <u>37,042,088</u>
2. Outpatient Services		<u> </u>	<u> </u>
3. Emergency Services		<u> </u>	<u> </u>
4. Other Operating Revenue (Spec Medical records & Interest		<u>3,300</u>	<u>3,300</u>
	Gross Operating Revenue	\$ <u>35,597,429</u>	\$ <u>37,045,388</u>
C. Deductions for Operating Revenue			
1. Contractual Adjustments		\$ <u>22,207,833</u>	\$ <u>23,343,348</u>
2. Provision for Charity Care		<u> </u>	<u> </u>
3. Provisions for Bad Debt		<u>107,090</u>	<u>109,590</u>
	Total Deductions	\$ <u>22,314,923</u>	\$ <u>23,452,938</u>
NET OPERATING REVENUE		\$ <u>13,282,506</u>	\$ <u>13,592,450</u>
D. Operating Expenses			
1. Salaries and Wages		\$ <u>5,776,540</u>	\$ <u>5,875,023</u>
2. Physicians Salaries and Wages		<u> </u>	<u> </u>
3. Supplies		<u>1,286,784</u>	<u>1,300,126</u>
4. Taxes		<u>176,190</u>	<u>222,532</u>
5. Depreciation		<u>1,288,225</u>	<u>1,302,510</u>
6. Rent		<u>564,651</u>	<u>581,591</u>
7. Interest, other than Capital		<u> </u>	<u> </u>
8. Management Fees			
a. Fees to Affiliates		<u>796,950</u>	<u>815,547</u>
b. Fees to Non-Affiliates		<u> </u>	<u> </u>
9. Other Expenses (Specify) <u>See notes page</u>		<u>3,157,524</u>	<u>3,190,263</u>
	Total Operating Expenses	\$ <u>13,046,864</u>	\$ <u>13,287,592</u>
E. Other Revenue (Expenses) -- Net (Specify)		\$ <u> </u>	\$ <u> </u>
NET OPERATING INCOME (LOSS)		\$ <u>235,641</u>	\$ <u>304,858</u>
F. Capital Expenditures			
1. Retirement of Principal		\$ <u> </u>	\$ <u> </u>
2. Interest		<u> </u>	<u> </u>
	Total Capital Expenditures	\$ <u>0</u>	\$ <u>0</u>
NET OPERATING INCOME (LOSS)			
LESS CAPITAL EXPENDITURES		\$ <u>235,641</u>	\$ <u>304,858</u>

SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE

LINE D.9, Other Expenses	HISTORICAL DATA CHART			PROJECTED DATA CHART	
	2011	2012	2013	2015	2016
Insurance	94,752	94,040	98,710	95,480	96,470
Utilities	12,399	15,751	18,088	18,141	18,329
Legal & Accounting	23,681	25,420	30,126	28,644	28,941
Repairs & Maintenance	113,548	104,459	97,455	98,344	99,364
Travel/Meals & Entertainment	101,050	132,329	108,746	109,802	110,941
Contracted Physicians	195,967	163,635	164,072	162,316	163,999
Ancillary Patient Services	1,898,580	1,895,388	2,153,124	2,167,396	2,189,869
Equipment Rentals	185,368	240,998	267,433	238,700	241,175
Corporate Services	187,383	218,935	235,074	238,700	241,175
Total Other Expenses	2,812,727	2,890,955	3,172,829	3,157,524	3,190,263

C(II).5. PLEASE IDENTIFY THE PROJECT'S AVERAGE GROSS CHARGE, AVERAGE DEDUCTION FROM OPERATING REVENUE, AND AVERAGE NET CHARGE.

Table Ten: Average Charges, Deductions, Net Charges, Net Operating Income		
	CY2015	CY2016
Patient Days	9,548	9,647
Admissions or Discharges	385	389
Average Gross Charge Per Day	\$3,728	\$3,840
Average Gross Charge Per Admission	\$92,461	\$95,232
Average Deduction from Operating Revenue per Day	\$2,337	\$2,431
Average Deduction from Operating Revenue per Admission	\$57,961	\$60,290
Average Net Charge (Net Operating Revenue) Per Day	\$1,391	\$1,409
Average Net Charge (Net Operating Revenue) Per Admission	\$34,500	\$34,942
Average Net Operating Income after Expenses, Per Day	\$25	\$32
Average Net Operating Income after Expenses, Per Admission	\$612	\$784

Source: Projected Data Chart

C(II).6.A. PLEASE PROVIDE THE CURRENT AND PROPOSED CHARGE SCHEDULES FOR THE PROPOSAL. DISCUSS ANY ADJUSTMENT TO CURRENT CHARGES THAT WILL RESULT FROM THE IMPLEMENTATION OF THE PROPOSAL. ADDITIONALLY, DESCRIBE THE ANTICIPATED REVENUE FROM THE PROPOSED PROJECT AND THE IMPACT ON EXISTING PATIENT CHARGES.

Please see Table Eleven on the following page. It shows the gross charge and DRG payment for the most frequent admissions of this hospital.

The relocation and renovation will not adversely impact the facility's charges. The hospital will fund the project with cash reserves, so new debt service will not be required for this project.

Table Eleven: Charge Data for Most Frequent Types of Admission
Select Specialty Hospital--North Knoxville

Service: Long Term Acute Care

DRG	Descriptor	Current Medicare Allowable	Average Gross Charge			Utilization (Admissions)		
			Current	Year 1	Year 2	Current	Year 1	Year 2
189	PULMONARY EDEMA & RESPIRATORY FAILURE	31,879.75	71,983	74,143	76,367	51	53	54
207	RESPIRATORY SYSTEM DIAGNOSIS W/VENTIL	66,890.33	159,522	164,308	169,237	50	51	52
949	AFTERCARE W/CC/MCC	24,249.41	72,334	74,504	76,739	29	29	29
871	SEPTICEMIA W/O MV 96+ HOURS WMCC	30,045.73	65,727	67,699	69,730	18	18	18
682	RENAL FAILURE W MCC	31,383.61	78,706	81,068	83,500	15	15	15
208	RESPIRATORY SYSTEM DIAGNOSIS W/VENTILATOR SUPPORT <96 HOURS	37,015.68	86,065	88,647	91,307	15	15	15
862	POSTOPERATIVE & POST-TRAUMATIC INFECTIONS W MCC	34,351.85	92,796	95,580	98,448	12	12	12
539	OSTEOMYELITIS W MCC	35,660.70	104,895	108,042	111,283	11	11	11
559	AFTERCARE, MUSCULOSKELETAL SYSTEM & CONNECTIVE TISSUE W MCC	31,458.88	63,390	65,292	67,250	9	9	9
314	OTHER CIRCULATORY SYSTEM DIAGNOSES WMCC	33,002.06	83,144	85,639	88,208	9	9	9
981	EXTENSIVE O.R. PROCEDURE UNRELATED TO PRINCIPAL DIAGNOSIS W MCC	73,391.52	194,361	200,192	206,197	8	8	8
640	NUTRITIONAL & MISC METABOLIC DISORDERS W MCC	30,237.35	58,749	60,512	62,327	7	7	7
4	TRACH W MV 96+ HRS OR PDX EXCFACE, MOUTH & NECK W/O MAJ O.R.	101,941.97	160,670	165,490	170,455	7	7	7
463	WIND DEBRID & SKN GRFT EXC HAND. FOR MUSCULO-CONN TISS DIS W MCC	49,593.76	117,113	120,626	124,245	6	6	7
863	POSTOPERATIVE & POST-TRAUMATIC INFECTIONS W/OMCC	24,129.65	65,345	67,305	69,324	6	6	6
	All Others					128	129	130
	Total Utilization					381	385	389

C(II).6.B. COMPARE THE PROPOSED CHARGES TO THOSE OF SIMILAR FACILITIES IN THE SERVICE AREA/ADJOINING SERVICE AREAS, OR TO PROPOSED CHARGES OF PROJECTS RECENTLY APPROVED BY THE HSDA. IF APPLICABLE, COMPARE THE PROJECTED CHARGES OF THE PROJECT TO THE CURRENT MEDICARE ALLOWABLE FEE SCHEDULE BY COMMON PROCEDURE TERMINOLOGY (CPT) CODE(S).

The requested Medicare reimbursement and current and future gross charge comparisons by DRG are provided in Table Eleven on the preceding page.

Table Twelve on the following page compares 2012 Joint Annual Report data for average gross charges per day and per stay, at all seven LTACH's in Tennessee. Five of them are Select Specialty facilities.

Select Specialty Hospital--North Knoxville has the second lowest charge per day, and the second lowest charge per stay, of all seven hospitals Statewide. The five Select facilities as a group had 22% lower charges per day than the non-Select facilities (\$3,959 compared to \$5,073).

In CY2015, the applicant projects a gross charge per day and per stay of \$3,728 and \$92,461, respectively. These are lower than most of the 2012 charges of other LTACH's in Tennessee, as shown in Table Twelve.

Table Twelve: Comparative Charges Per Stay and Per Day Tennessee Long Term Acute Care Hospitals, 2012 Joint Annual Reports					
Facility	Gross Charges	Admissions	Patient or Discharge Days	Charge/Stay	Charge/Day
Select Specialty Hospital--Tri-Cities	\$52,618,282	404	10,919	\$130,243	\$4,819
Select Specialty Hospital--North Knoxville	\$33,374,708	354	9127	\$94,279	\$3,657
Select Specialty Hospital--Knoxville	\$32,592,057	418	10,153	\$77,971	\$3,210
Kindred Hospital--Chattanooga	\$51,418,405	421	10,498	\$122,134	\$4,898
Kindred Hospital--Nashville	\$49,559,157	282	9,406	\$175,742	\$5,269
Select Specialty Hospital--Nashville	\$61,173,865	426	16,664	\$143,601	\$3,671
Select Specialty Hospital--Memphis	\$58,876,841	474	13,412	\$124,213	\$4,390
Seven LTAC Hospitals	\$339,613,315	2,779	80,179	\$122,207	\$4,236
Five Select Specialty LTAC Hospitals	\$238,635,753	2,076	60,275	\$114,950	\$3,959
Other LTAC Hospitals	\$100,977,562	703	19,904	\$143,638	\$5,073

Source: TDH Joint Annual Reports, 2012

C(II).7. DISCUSS HOW PROJECTED UTILIZATION RATES WILL BE SUFFICIENT TO MAINTAIN COST-EFFECTIVENESS.

At its present location, the applicant hospital is already cost-effective and operates with a positive financial margin. Relocation to a better facility will not reduce its performance. It will remain cost-effective, and utilized slightly above its current levels.

C(II).8. DISCUSS HOW FINANCIAL VIABILITY WILL BE ENSURED WITHIN TWO YEARS; AND DEMONSTRATE THE AVAILABILITY OF SUFFICIENT CASH FLOW UNTIL FINANCIAL VIABILITY IS MAINTAINED.

The hospital operates with a positive financial margin. Cash flow is not an issue; this is an existing facility with established reimbursement and positive cash flow at all times.

C(II).9. DISCUSS THE PROJECT'S PARTICIPATION IN STATE AND FEDERAL REVENUE PROGRAMS, INCLUDING A DESCRIPTION OF THE EXTENT TO WHICH MEDICARE, TENNCARE/MEDICAID, AND MEDICALLY INDIGENT PATIENTS WILL BE SERVED BY THE PROJECT. IN ADDITION, REPORT THE ESTIMATED DOLLAR AMOUNT OF REVENUE AND PERCENTAGE OF TOTAL PROJECT REVENUE ANTICIPATED FROM EACH OF TENNCARE, MEDICARE, OR OTHER STATE AND FEDERAL SOURCES FOR THE PROPOSAL'S FIRST YEAR OF OPERATION.

In the twelve months November 2012-October 2013, this hospital had a Medicare payor mix of approximately 79.5% of gross revenues. Medicaid was 5.8% of gross revenues. These percentages are assumed to continue in Year One (CY2015) of this project. See table Thirteen below.

Table Thirteen: Medicare and TennCare/Medicaid Revenues, Year One			
	All Payors	Medicare	Medicaid
Gross Revenue	\$35,597,429	\$28,299,956	\$2,064,651
% of Gross Revenue	100%	79.5%	5.8%

C(II).10. PROVIDE COPIES OF THE BALANCE SHEET AND INCOME STATEMENT FROM THE MOST RECENT REPORTING PERIOD OF THE INSTITUTION, AND THE MOST RECENT AUDITED FINANCIAL STATEMENTS WITH ACCOMPANYING NOTES, IF APPLICABLE. FOR NEW PROJECTS, PROVIDE FINANCIAL INFORMATION FOR THE CORPORATION, PARTNERSHIP, OR PRINCIPAL PARTIES INVOLVED WITH THE PROJECT. COPIES MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND LABELED AS ATTACHMENT C, ECONOMIC FEASIBILITY--10.

These are provided as Attachment C, Economic Feasibility--10.

C(II)11. DESCRIBE ALL ALTERNATIVES TO THIS PROJECT WHICH WERE CONSIDERED AND DISCUSS THE ADVANTAGES AND DISADVANTAGES OF EACH ALTERNATIVE, INCLUDING BUT NOT LIMITED TO:

A. A DISCUSSION REGARDING THE AVAILABILITY OF LESS COSTLY, MORE EFFECTIVE, AND/OR MORE EFFICIENT ALTERNATIVE METHODS OF PROVIDING THE BENEFITS INTENDED BY THE PROPOSAL. IF DEVELOPMENT OF SUCH ALTERNATIVES IS NOT PRACTICABLE, THE APPLICANT SHOULD JUSTIFY WHY NOT, INCLUDING REASONS AS TO WHY THEY WERE REJECTED.

B. THE APPLICANT SHOULD DOCUMENT THAT CONSIDERATION HAS BEEN GIVEN TO ALTERNATIVES TO NEW CONSTRUCTION, E.G., MODERNIZATION OR SHARING ARRANGEMENTS. IT SHOULD BE DOCUMENTED THAT SUPERIOR ALTERNATIVES HAVE BEEN IMPLEMENTED TO THE MAXIMUM EXTENT PRACTICABLE.

The alternative of remaining in the current hospital was rejected for several reasons. First, the current location is in an aged hospital structure whose patient rooms are less private, less spacious, less attractive, less weatherproof, and have less manageable heat and cooling systems, than rooms that the applicant can construct in space being offered at Physicians Plaza MOB at North Knoxville Medical Center. Second, the applicant's existence would be at risk from electing to stay at a facility where full (or any) ancillary support services may not be available 24/7 in future years. At that future time, comparable alternative leased bed space might not be available to Select. Third, the applicant has an immediate opportunity to improve its physical space, while remaining lodged within the same health system with which it currently works most closely; and maintaining such stability might not be possible at a later date.

The alternative of requesting additional beds was not pursued because the applicant, like the applicant's affiliate LTACH facility in Knoxville, is managing to meet most requests for admission with its current bed complement. Some additional admissions will be possible when the bed complement changes from 15% private rooms to 100% private rooms; and that should relieve peak period bed needs for awhile.

The alternative of leasing newer space in the East Oak Hill facility (at a higher lease rate) has been offered to Select; but uncertainty about future ancillary service availability and the need to pay higher lease costs are not acceptable.

C(III).1. LIST ALL EXISTING HEALTH CARE PROVIDERS (I.E., HOSPITALS, NURSING HOMES, HOME CARE ORGANIZATIONS, ETC.) MANAGED CARE ORGANIZATIONS, ALLIANCES, AND/OR NETWORKS WITH WHICH THE APPLICANT CURRENTLY HAS OR PLANS TO HAVE CONTRACTUAL AND/OR WORKING RELATIONSHIPS, E.G., TRANSFER AGREEMENTS, CONTRACTUAL AGREEMENTS FOR HEALTH SERVICES.

Select Specialty Hospital--North Knoxville is located within the tertiary Tennova Healthcare facility in central Knoxville. Tennova is its "host" hospital. Select contracts with the host hospital and the host's vendors to deliver the ancillary and support services needed by its patients. This includes food services, diagnostic imaging and testing, surgery if required, and health professional consults and support on a 24-hour basis. The latter includes all types of physician services that may be needed.

As an LTACH, Select Specialty Hospital--north Knoxville receives transfer requests from many primary service area hospitals on a regular basis.

C(III).2. DESCRIBE THE POSITIVE AND/OR NEGATIVE EFFECTS OF THE PROPOSAL ON THE HEALTH CARE SYSTEM. PLEASE BE SURE TO DISCUSS ANY INSTANCES OF DUPLICATION OR COMPETITION ARISING FROM YOUR PROPOSAL, INCLUDING A DESCRIPTION OF THE EFFECT THE PROPOSAL WILL HAVE ON THE UTILIZATION RATES OF EXISTING PROVIDERS IN THE SERVICE AREA OF THE PROJECT.

The project will not have any negative effects on other providers. This is only a change in location within Knox County. The project will not change Select's licensed bed complement, scope of services, primary service area, ownership, or management. It will not even change its affiliation with its host hospital system (Tennova).

The positive effects of the project have been stated in several prior sections of the application. They include additional private accommodations without a license increase, larger and more modern rooms without water problems, greater functionality for patients requiring special equipment in the room, and increased patient and referral hospital satisfaction.

C(III).3. PROVIDE THE CURRENT AND/OR ANTICIPATED STAFFING PATTERN FOR ALL EMPLOYEES PROVIDING PATIENT CARE FOR THE PROJECT. THIS CAN BE REPORTED USING FTE'S FOR THESE POSITIONS. IN ADDITION, PLEASE COMPARE THE CLINICAL STAFF SALARIES IN THE PROPOSAL TO PREVAILING WAGE PATTERNS IN THE SERVICE AREA AS PUBLISHED BY THE TENNESSEE DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT AND/OR OTHER DOCUMENTED SOURCES.

Please see the following page for Table Fifteen, a chart of projected FTE's and salary ranges.

The Department of Labor and Workforce Development website indicates the following Knoxville area annual salary information for clinical employees of the categories staffed in this project.

Table Fourteen: TDOL Surveyed Average Salaries for the Region				
Clinical Position	Entry Level	Mean	Median	Experienced
RN	\$43,280	\$60,480	\$54,110	\$69,080
LPN	not surveyed			
Nurse Aide	\$19,200	\$22,610	\$22,250	\$24,320
Physical Therapist	\$58,710	\$71,000	\$70,501	\$77,140
Occupational Therapist	\$61,470	\$80,790	\$74,100	\$90,310
Speech Therapist	\$39,290	\$57,210	\$55,110	\$66,170
Respiratory Therapist	\$38,680	\$44,990	\$44,560	\$48,150
Physical Therapy Assist.	\$33,900	\$45,070	\$43,280	\$50,660
COTA (Occ.Ther. Assist.)	\$32,390	\$43,550	\$39,670	\$49,130
Pharmacist	\$76,980	\$114,010	\$113,940	\$132,530
Pharmacy Tech	\$16,910	\$21,730	\$21,220	\$24,140
Dietician	\$40,370	\$51,550	\$51,360	\$57,150
Medical Records Admin.	not surveyed			
Medical Records Tech.	not surveyed			

Source: DOLWD Website, May 2012 occupational wage and salary survey

**Table Fifteen: Select Specialty Hospital--North Knoxville
Long Term Acute Care Hospital
Current and Projected Staffing**

Position Type (RN, etc.)	Current FTE's	CY2015 FTE's	CY2016 FTE's	Salary Range (Annual)
Administrator/CEO	1	1	1	\$100,000-\$150,000
Human Resource Assistant	1	1	1	\$34,000-\$38,000
Marketing & Planning Officers/Assist.	2.5	2.5	2.5	\$66,000-\$76,000
Financial & Accounting Officers	1.4	1.4	1.4	\$27,000-\$50,000
RN-Administrative CNO	1	1	1	\$80,000-\$97,000
RNs-Patient Care/Clinical	34	34	34	\$39,000-\$85,000
LPNs-Patient Care	2	2	2	\$34,000-\$36,000
Ancillary Nursing Personnel	16	16	16	\$20,000-\$27,000
Medical Records Admin & Technicians	1.6	1.6	1.6	\$23,000-\$37,000
Pharmacist	1	1	1	\$115,000-\$120,000
Pharmacy Technicians	1.5	1.5	1.5	\$32,000-\$38,000
Therapist (SP, OT, PT, RT)	10.2	10.2	10.2	\$44,000-\$95,000
Therapy Assistants (COTA, PTA)	2	2	2	\$55,000-\$62,000
Other Cert. Professional: Quality	2.4	2.4	2.4	\$74,000-\$76,000
Other Cert. Professional: Case Managers	2	2	2	\$61,000-\$76,000
Non-Cert. Professional: Telemetry/US/Admiss	6.5	6.5	6.5	\$23,000-\$33,000
Dietitian Contracted with Host Hospital	0.5	0.5	0.5	\$25,000-\$30,000
Total FTE's	86.6	86.6	86.6	

Source: Select Specialty Hospital management

C(III).4. DISCUSS THE AVAILABILITY OF AND ACCESSIBILITY TO HUMAN RESOURCES REQUIRED BY THE PROPOSAL, INCLUDING ADEQUATE PROFESSIONAL STAFF, AS PER THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, AND/OR THE DIVISION OF MENTAL RETARDATION SERVICES LICENSING REQUIREMENTS.

This project is the relocation of an existing, fully staffed hospital, with no projected increase or decrease of staff. So availability is not an issue. As an experienced provider affiliated with a national healthcare company, the applicant is very familiar with State standards for human resources.

C(III).5. VERIFY THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSING CERTIFICATION AS REQUIRED BY THE STATE OF TENNESSEE FOR MEDICAL/CLINICAL STAFF. THESE INCLUDE, WITHOUT LIMITATION, REGULATIONS CONCERNING PHYSICIAN SUPERVISION, CREDENTIALING, ADMISSIONS PRIVILEGES, QUALITY ASSURANCE POLICIES AND PROGRAMS, UTILIZATION REVIEW POLICIES AND PROGRAMS, RECORD KEEPING, AND STAFF EDUCATION.

The applicant so verifies.

C(III).6. DISCUSS YOUR HEALTH CARE INSTITUTION'S PARTICIPATION IN THE TRAINING OF STUDENTS IN THE AREAS OF MEDICINE, NURSING, SOCIAL WORK, ETC. (I.E., INTERNSHIPS, RESIDENCIES, ETC.).

Select Specialty Hospitals in Knoxville provide clinical rotations for nursing and therapy training programs, under contracts with Pellissippi State Community College, South College, Belmont University, Carson Newman College, Lynchburg College, and Roane State Community College.

C(III).7(a). PLEASE VERIFY, AS APPLICABLE, THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSURE REQUIREMENTS OF THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, THE DIVISION OF MENTAL RETARDATION SERVICES, AND/OR ANY APPLICABLE MEDICARE REQUIREMENTS.

The applicant so verifies.

C(III).7(b). PROVIDE THE NAME OF THE ENTITY FROM WHICH THE APPLICANT HAS RECEIVED OR WILL RECEIVE LICENSURE, CERTIFICATION, AND/OR ACCREDITATION

LICENSURE: Board for Licensure of Healthcare Facilities
Tennessee Department of Health

CERTIFICATION: Medicare Certification from CMS
TennCare Certification from TDH

ACCREDITATION: Joint Commission

C(III).7(c). IF AN EXISTING INSTITUTION, PLEASE DESCRIBE THE CURRENT STANDING WITH ANY LICENSING, CERTIFYING, OR ACCREDITING AGENCY OR AGENCY.

The applicant is currently licensed in good standing by the Board for Licensing Health Care Facilities, certified for participation in Medicare and Medicaid/TennCare, and fully accredited by the Joint Commission on Accreditation of Healthcare Organizations.

C(III).7(d). FOR EXISTING LICENSED PROVIDERS, DOCUMENT THAT ALL DEFICIENCIES (IF ANY) CITED IN THE LAST LICENSURE CERTIFICATION AND INSPECTION HAVE BEEN ADDRESSED THROUGH AN APPROVED PLAN OF CORRECTION. PLEASE INCLUDE A COPY OF THE MOST RECENT LICENSURE/CERTIFICATION INSPECTION WITH AN APPROVED PLAN OF CORRECTION.

They have been addressed. A copy of the most recent licensure inspection and plan of correction, and/or the most recent accreditation inspection, are provided in Attachment C, Orderly Development--7(C).

C(III)8. DOCUMENT AND EXPLAIN ANY FINAL ORDERS OR JUDGMENTS ENTERED IN ANY STATE OR COUNTRY BY A LICENSING AGENCY OR COURT AGAINST PROFESSIONAL LICENSES HELD BY THE APPLICANT OR ANY ENTITIES OR PERSONS WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE APPLICANT. SUCH INFORMATION IS TO BE PROVIDED FOR LICENSES REGARDLESS OF WHETHER SUCH LICENSE IS CURRENTLY HELD.

None.

C(III)9. IDENTIFY AND EXPLAIN ANY FINAL CIVIL OR CRIMINAL JUDGMENTS FOR FRAUD OR THEFT AGAINST ANY PERSON OR ENTITY WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE PROJECT.

None.

C(III)10. IF THE PROPOSAL IS APPROVED, PLEASE DISCUSS WHETHER THE APPLICANT WILL PROVIDE THE THSDA AND/OR THE REVIEWING AGENCY INFORMATION CONCERNING THE NUMBER OF PATIENTS TREATED, THE NUMBER AND TYPE OF PROCEDURES PERFORMED, AND OTHER DATA AS REQUIRED.

Yes. The applicant will provide the requested data consistent with Federal HIPAA requirements.

PROOF OF PUBLICATION

Attached.

DEVELOPMENT SCHEDULE

1. PLEASE COMPLETE THE PROJECT COMPLETION FORECAST CHART ON THE NEXT PAGE. IF THE PROJECT WILL BE COMPLETED IN MULTIPLE PHASES, PLEASE IDENTIFY THE ANTICIPATED COMPLETION DATE FOR EACH PHASE.

The Project Completion Forecast Chart is provided after this page.

2. IF THE RESPONSE TO THE PRECEDING QUESTION INDICATES THAT THE APPLICANT DOES NOT ANTICIPATE COMPLETING THE PROJECT WITHIN THE PERIOD OF VALIDITY AS DEFINED IN THE PRECEDING PARAGRAPH, PLEASE STATE BELOW ANY REQUEST FOR AN EXTENDED SCHEDULE AND DOCUMENT THE "GOOD CAUSE" FOR SUCH AN EXTENSION.

Not applicable. The applicant anticipates completing the project within the period of validity.



PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision Date, as published in Rule 68-11-1609(c):

At the latest, the applicant expects to receive approval on March 26, 2014.

Assuming the CON decision becomes the final Agency action on that date, indicate the number of days from the above agency decision date to each phase of the completion forecast.

PHASE	DAYS REQUIRED	Anticipated Date (MONTH /YEAR)
1. Architectural & engineering contract signed	1	3-27-14
2. Construction documents approved by TDH	33	5-1-14
3. Construction contract signed	42	5-10-14
4. Building permit secured	47	5-15-14
5. Site preparation completed	na	na
6. Building construction commenced	62	6-1-14
7. Construction 40% complete	137	9-15-14
8. Construction 80% complete	197	10-15-14
9. Construction 100% complete	242	11-30-14
10. * Issuance of license	270	12-28-14
11. *Initiation of service	273	1-1-15
12. Final architectural certification of payment	333	3-1-15
13. Final Project Report Form (HF0055)	393	5-1-15

*** For projects that do NOT involve construction or renovation: please complete items 10-11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

INDEX OF ATTACHMENTS

A.4	Ownership--Legal Entity And List of Select Facilities in Tennessee
A.6	Site Control--Executed Lease Conditional on CON Approval
B.II.A.	Square Footage and Costs Per Square Footage Chart
B.III.	Plot Plan
B.IV.	Floor Plan
C, Need--3	Service Area Maps
C, Economic Feasibility--1	Documentation of Construction Cost Estimate
C, Economic Feasibility--2	Documentation of Availability of Funding
C, Economic Feasibility--10	Financial Statements
C, Orderly Development--7(C)	Licensing Inspection
Miscellaneous Information	TennCare Enrollments in Service Area Counties
Support Letters	

**B.II.A.--Square Footage and Costs Per Square
Footage Chart**

SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE
 SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost / SF		
					Renovated	New	Total	Renovated	New	Total
SELECT SPECIALTY HOSPITAL										
KNOXVILLE, TN										
33 PATIENT ROOMS		9,195 SF			9,195 SF		9,195 SF	\$242.00	NA	\$2,225,190.00
SUPPORT AREAS		14,429 SF			14,429 SF		14,429 SF	\$194.00	NA	\$2,799,810.00
B. Unit/Dept. GSF Sub-Total										\$5,025,000.00
C. Mechanical / Electrical GSF										
D. Circulation / Structure GSF										
E. Total GSF										\$5,025,000.00
Renovation										
Canopies										
GRAND TOTAL		23,624			23,624		23,624	\$212.71		\$5,025,000

AW10-00

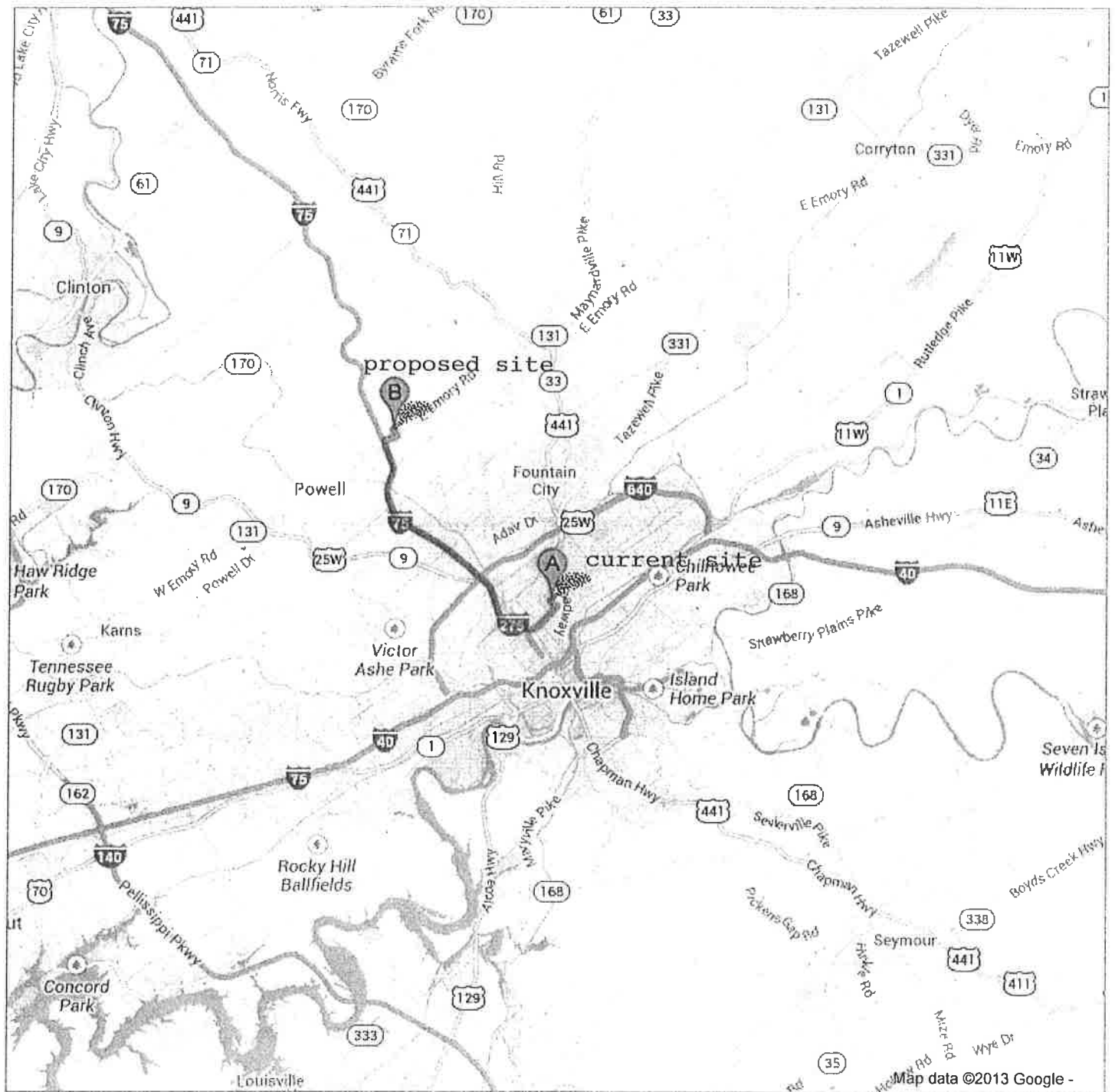
DEC 16 '13

B.III.--Plot Plan

76

Google

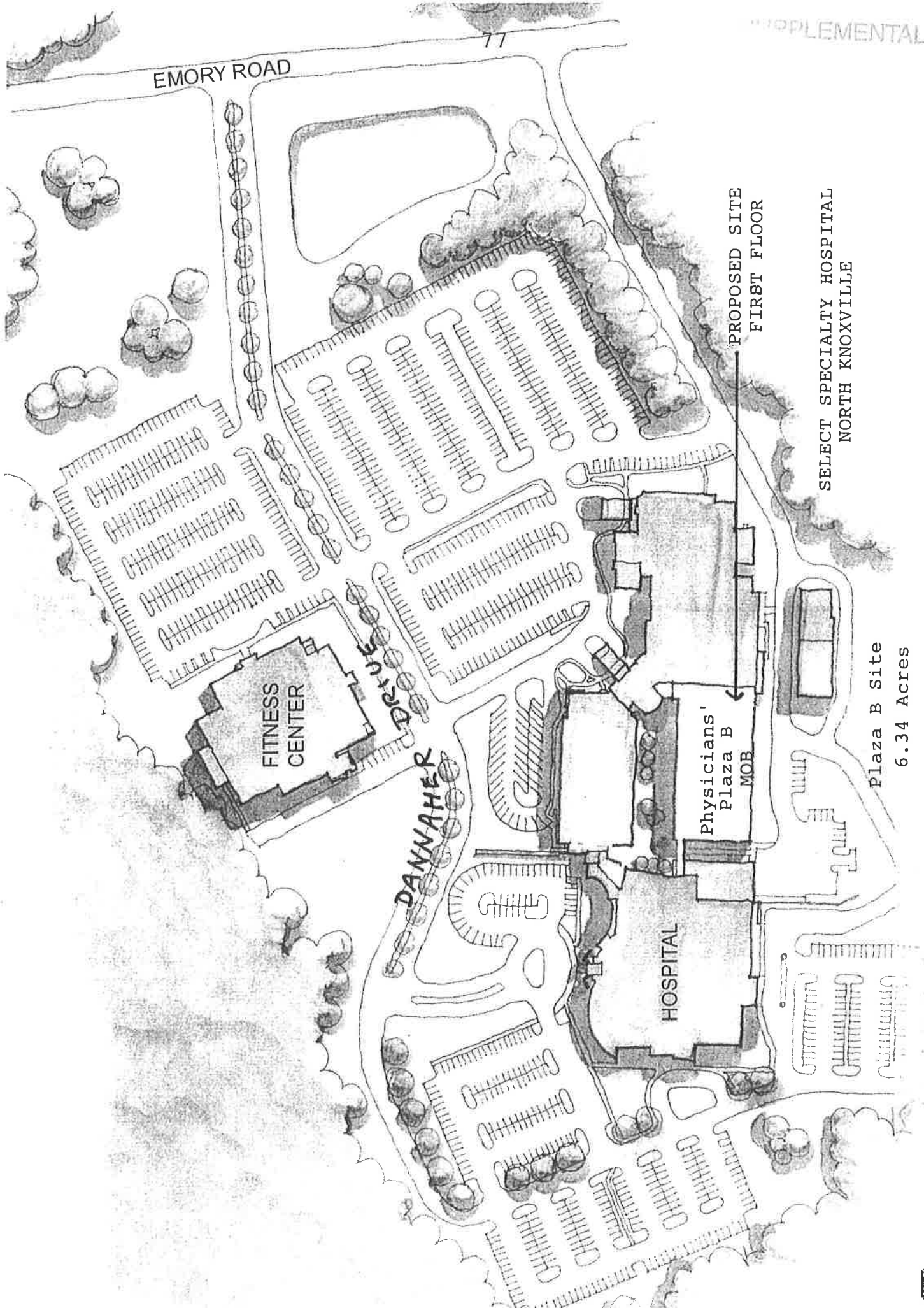
To see all the details that are visible on the screen, use the "Print" link next to the map.



Driving directions to 7557 Dannaher Dr, Powell, TN 37849



900 E Oak Hill Ave
Knoxville, TN 37917



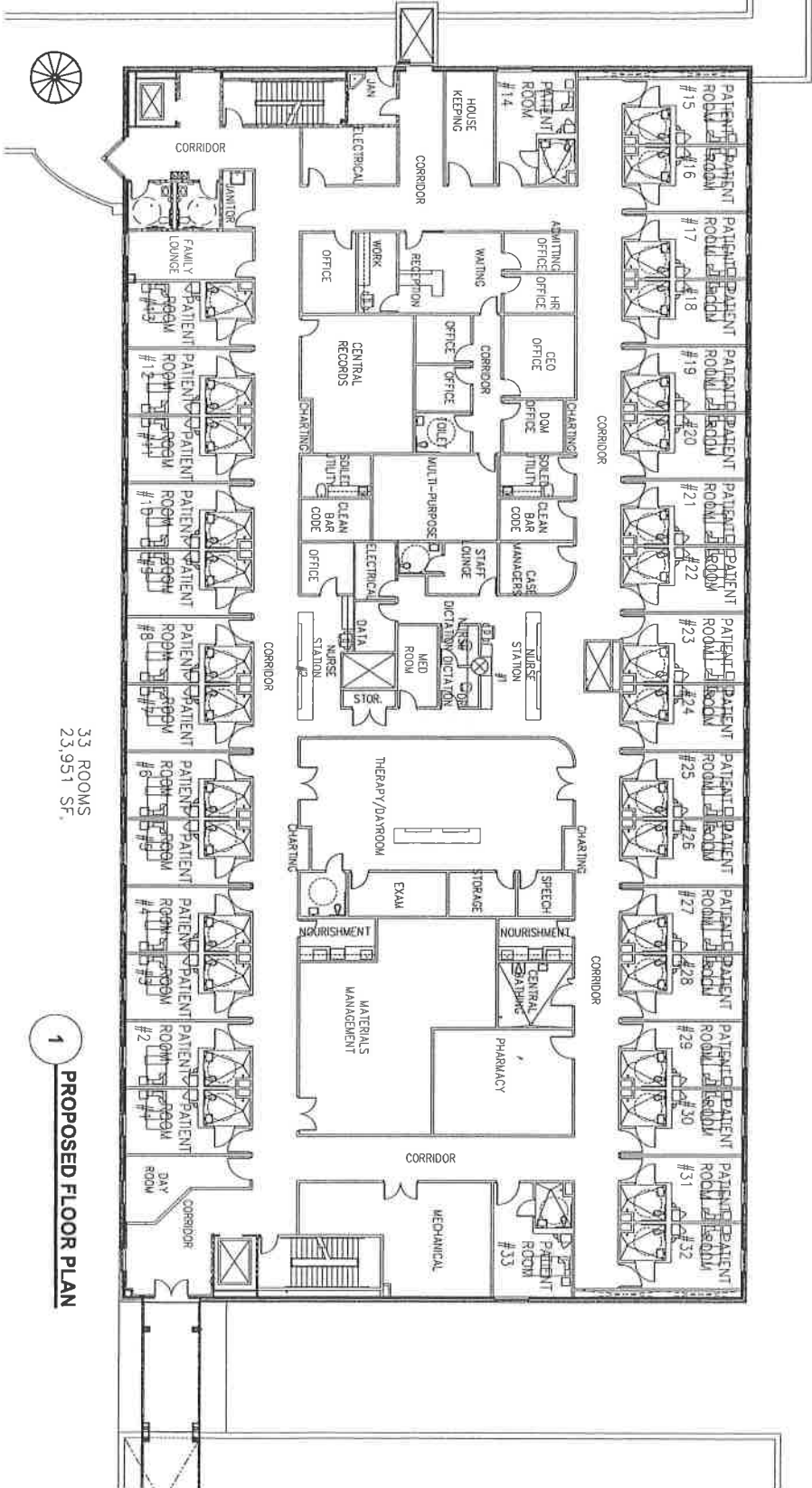
SELECT SPECIALTY HOSPITAL
NORTH KNOXVILLE

Plaza B Site
6.34 Acres

NORTH KNOXVILLE MEDICAL CENTER SITE PLAN

Knoxville, Tennessee

B.IV.--Floor Plan



CURRENCE & GRAY
ARCHITECTS, P.C.
10000 E. 10th Avenue, Suite 100
Denver, CO 80231
Phone: 303-733-1400
Fax: 303-733-1400
www.currenccgray.com



SELECT MEDICAL CORPORATION
NORTH KNOXVILLE
LTVCH 144

PROJECT NAME: _____

DATE: _____

PROJECT NUMBER: _____

DATE: _____

PROJECT NUMBER: _____

DATE: _____

PROJECT NUMBER: _____

DATE: _____

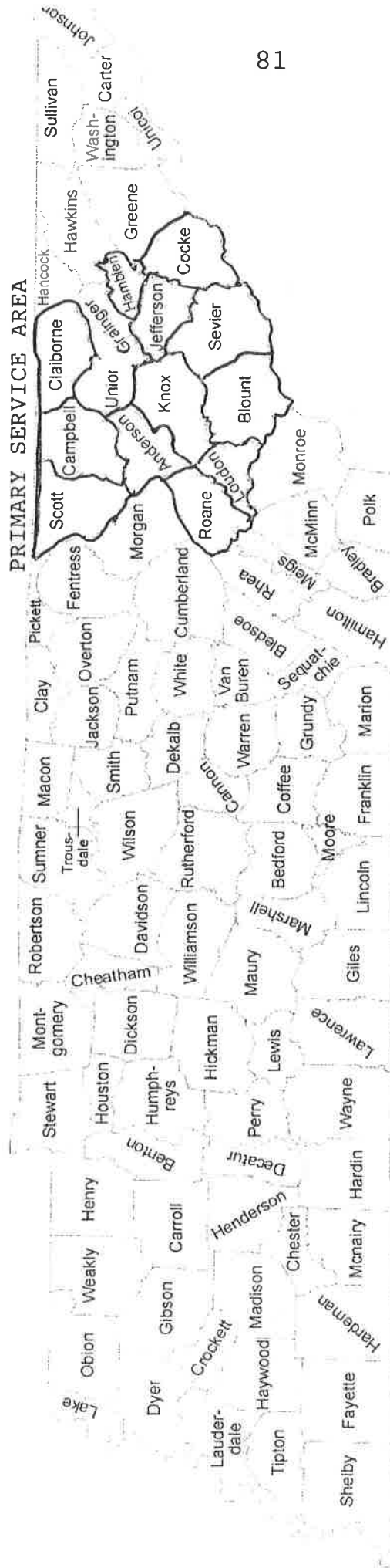
PROJECT NUMBER: _____

A11

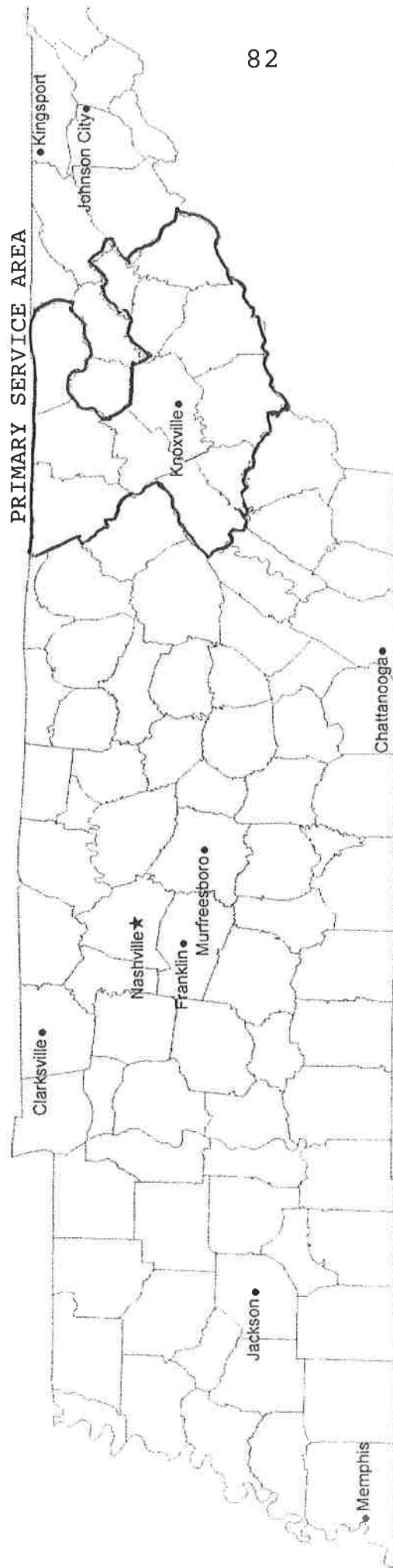
C, Need--3
Service Area Maps

SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE

PRIMARY SERVICE AREA



SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE



C, Economic Feasibility--1
Documentation of Construction Cost Estimate



November 27, 2013

Melanie Hill, Executive Director
 Tennessee Health Services and Development Agency
 Andrew Jackson Building, Ninth Floor
 502 Deaderick Street
 Nashville, Tennessee 37203

RE: Select Specialty Hospital North Knoxville
 Relocation Project

Dear Mrs. Hill;

Please allow this letter to serve as Currence & Gray Architects, PLLC, (C&G's) acknowledgement that C&G has reviewed Select Medical Corporation's construction cost estimate of \$5,025,000.00 for the renovation of a 23,624-SF nursing floor at North Knoxville Medical Center. Based on our experience with similar projects and on our knowledge of the current healthcare design costs, C&G feels that this construction cost estimate is both reasonable and sufficient for the proposed renovation.

We are basing our review and certification on the current building codes that would apply to the project. This list shown below is not intended to be inclusive, however it does demonstrate that the Project will be designed using the latest adopted codes, regulations and rules from the various Authorities having Jurisdiction (Local, State, and Federal). Please also note that C&G is a licensed Architect in the State of Tennessee.

- Guidelines for the Design and Construction of Health Care Facilities (current)
- Rules of the Tennessee Board for Licensing of Healthcare Facilities
- International Building Code (IBC)
- National Electrical Code (NEC)
- National Fire Protection Association Codes (NFPA Codes)
- Americans with Disabilities Act (ADA)

Sincerely,

CURRENCE & GRAY ARCHITECTS, PLLC

A handwritten signature in dark ink, appearing to read "Bill Gray". The signature is stylized with a large, looped "B" and "G".

George W. "Bill" Gray, A.I.A.
 CEO

Cc: Dan Blaker, Select Medical Corporation
 Todd Jackson, Brasfield & Gorrie

PARTNERS

JERRY E. CURRENCE, A.I.A.
 GEORGE W. "BILL" GRAY, A.I.A.
 MIKE CALLAHAN, A.I.A.
 BRAM KEAHEY, A.I.A.

4500 Burrow Drive
 North Little Rock, Arkansas 72116
 501.758.7443 / phone
 501.753.7309 / fax

C, Economic Feasibility--2
Documentation of Availability of Funding



November 27, 2013

Melanie M. Hill, Executive Director
Tennessee Health Facilities Commission
Andrew Jackson State Office Building, Suite 850
500 Deaderick Street
Nashville, Tennessee 37243

Dear Mrs. Hill:

Select Specialty Hospital--North Knoxville is applying for a Certificate of Need to relocate from its current location at Tennova Healthcare in Knoxville, to Tennova's North Knoxville Medical Center in Powell, still within Knox County. This will require a capital expenditure estimated at approximately \$6,677,000.

As Select Medical Corporation's Chief Financial Officer responsible for our Knoxville facilities, I am writing to confirm that Select Specialty Hospital--North Knoxville will fund the project in cash, and that it currently has sufficient cash reserves to do so.

Sincerely,

Signature and Title

Marty Jackson
Executive Vice President, Chief Financial Office
Select Medical Corporation

C, Economic Feasibility--10
Financial Statements



Y YTD BALANCE SHEET REPORT

Elect Medical Corporation
 Period: OCT-13 Currency: USD
 Submitted: 23-NOV-13 21:29:51

COMPANY=452 (North Knoxville) ↙

	YTD
Current assets:	
Cash and cash equivalents	0.00
Accounts receivables:	
Patient receivables	4,103,164.74
AR Clearing	(1,267,622.98)
Contractual adjustments	(1,759,470.55)
Allow for doubtful accounts	(234,935.91)
Other receivables	0.00
Prepaid expenses	0.00
Other current assets	59,793.57
Total current assets	900,928.87
Affiliates:	
Investments in	0.00
Advances to	9,878,274.22
Total affiliates	9,878,274.22
Property and equipment:	
Land	0.00
Building and improvements	295,303.94
Assets under capital leases	0.00
Furniture and equipment	1,387,291.91
Asset Clearing	0.00
Total fixed assets	1,682,595.85
Less accum. deprec	(1,287,545.45)
Net val property, plant & equip	395,050.40
Construction in progress	3,152.26
Total property, plant & equip	398,202.66
Other assets:	
Deposits	0.00
Prepaid rent	0.00
Goodwill, net	0.00
Other intangibles	0.00
Mgmt service agreements	0.00
Long term investments	0.00
Notes receivable	0.00
Deferred costs, net	0.00
Deferred financing costs, net	0.00
Other noncurrent assets	0.00
Total noncurrent assets	0.00
Total assets	11,177,405.75

← RESERVE
 AVAILABLE
 FOR
 THIS PROJECT

COMPANY=452 (North Knoxville)

	<i>YTD</i>
Current liabilities:	
Notes payable	
Current portion of L-T debt:	
Seller notes - current	0.00
Notes and mortgages	0.00
Capital leases	0.00
Accounts payable	774,638.41
Accrued expenses:	
Payroll	0.00
Vacation	178,830.22
Insurance	0.00
Other	170,188.14
Due to third party payor	(1,399,361.90)
Income taxes:	
Current	0.00
Deferred	0.00
Total current liabilities	<u>(275,705.13)</u>
L-T debt, net of current portion:	
Notes, mortgages & conv. debt	0.00
Seller notes - LT	0.00
Subordinate debt	0.00
Credit facility debt	0.00
Capital leases	0.00
Other liabilities:	
Deferred income taxes	0.00
Other L-T liabilities	0.00
Total L-T debt & liab	<u>0.00</u>
Minority interest:	
Capital	0.00
Retained earnings	0.00
Total minority interest	<u>0.00</u>
Shareholders & partners equity:	
Common stock	0.00
Preferred stock (Class A)	0.00
Preferred stock (Class B)	0.00
Preferred stock dividends	0.00
Distributions	0.00
Capital in excess of par	1,411,379.90
Retained earnings, prior	7,974,397.74
Current year net income (loss)	2,067,333.24
Total S & P equity	<u>11,453,110.88</u>
Total liabilities & equity	<u>11,177,405.75</u>



IP INCOME STATEMENT YTD TREND REPORT

Select Medical Corporation
Period: OCT-13 Currency: USD
Submitted: 22-NOV-13 10:01:44

COMPANY=482 North Knoxville

	NOV-12	DEC-12	JAN-13	FEB-13	MAR-13	APR-13	ACTUALS		JUN-13	JUL-13	AUG-13	SEP-13	OCT-13	TOTAL
	1.10	1.03	1.10	1.00	1.12	1.30	1.10	1.38	1.34	0.97	1.10	1.10	1.38	13.72
CNH Medicare MTD	1.11	1.10	1.10	1.05	1.07	1.13	1.12	1.15	1.16	1.13	1.13	1.15	1.16	13.41
Equivalent Patient Days	765.00	772.00	825.00	817.00	835.00	824.00	888.00	688.00	853.00	665.00	725.00	725.00	751.00	9,410.00
Average Daily Census	25.50	24.90	26.61	29.18	26.94	27.47	28.65	22.93	27.52	21.45	24.17	24.17	24.29	25.78
IP Physician Reimburse	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
REVENUES														
Insurance Revenue	784,125.00	790,275.00	840,500.00	906,093.85	915,031.25	913,857.20	984,854.40	763,036.40	946,019.65	737,518.25	804,061.25	804,061.25	835,114.65	10,230,439.40
Insurance Revenue	1,251,157.29	2,071,211.63	2,108,653.50	2,688,360.23	2,591,460.86	2,151,969.23	2,583,044.36	1,692,573.18	1,868,880.01	1,604,276.84	1,967,634.26	1,967,634.26	2,138,528.12	24,023,181.57
Unaffiliated Auxiliary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Patient Revenues	2,042,282.29	2,861,486.63	2,949,153.50	2,574,454.14	3,456,492.61	3,071,826.43	3,569,898.76	2,455,609.58	2,814,899.66	2,341,795.09	2,771,695.51	2,771,695.51	2,973,642.77	34,253,640.97
DEDUCTIONS FROM REVENUE														
Contractual Allowance	253,921.62	1,092,253.06	1,269,379.38	1,227,788.03	1,396,761.49	1,449,178.42	1,646,469.46	884,943.31	1,219,781.48	1,084,803.41	1,513,633.30	1,513,633.30	1,141,441.72	14,180,354.68
Contracted Discounts	748,873.79	599,320.83	619,363.39	741,193.93	467,167.36	511,447.63	740,310.91	707,956.42	372,753.78	356,818.41	247,535.31	247,535.31	584,576.89	6,697,308.65
Prior Year Contractual Adj	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	234,373.10
Other Revenue Deductions	0.18	0.00	0.00	0.11	0.02	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.08	0.20
Total Revenue Deductions	1,002,795.59	1,691,573.79	1,888,742.75	1,968,982.07	2,096,315.97	1,960,626.03	2,386,780.38	1,592,899.73	1,592,535.22	1,443,887.82	1,761,168.59	1,761,168.59	1,726,018.69	21,112,316.63
NET PATIENT REVENUE	1,039,486.70	1,169,912.84	1,060,410.75	1,605,472.07	1,330,556.64	1,111,200.40	1,183,100.38	862,709.85	1,222,364.44	897,907.27	1,010,526.92	1,010,526.92	1,247,624.08	13,141,404.34
Other Revenue	0.00	80.00	0.00	105.00	139.30	40.00	7.46	399.85	280.72	280.72	140.12	140.12	0.00	1,237.45
TOTAL NET REVENUE	1,039,486.70	1,169,992.84	1,060,410.75	1,605,577.07	1,330,695.94	1,111,240.40	1,183,107.84	863,101.70	1,222,406.62	898,187.99	1,010,677.04	1,010,677.04	1,247,624.08	13,142,641.79
OPERATING EXPENSES														
Salaries & Wages	420,700.00	358,516.42	402,244.51	370,364.87	423,158.76	394,587.59	449,113.47	371,594.00	439,887.81	377,465.87	381,262.50	381,262.50	415,058.90	4,803,954.70
Benefits	64,006.84	56,584.46	85,330.77	86,329.44	80,388.33	71,089.00	82,828.84	59,664.98	70,449.54	58,454.34	59,491.39	59,491.39	74,617.80	849,635.73
Contracted Departments	190,833.46	190,237.60	170,033.04	169,325.54	171,906.42	179,228.69	223,215.16	158,178.68	192,367.70	181,255.60	183,251.42	183,251.42	165,237.45	2,175,940.76
Physician Fees	13,674.40	13,316.88	15,066.88	11,664.44	16,941.88	12,474.40	17,091.88	11,712.40	13,541.88	14,541.88	13,299.40	13,299.40	11,291.88	163,118.20
Medical Supplies	92,692.71	97,380.41	122,396.36	99,517.83	109,849.81	102,541.65	121,645.92	60,827.74	111,037.18	76,042.48	91,415.38	91,415.38	118,458.46	1,203,908.93
Food & Other Supplies	3,415.33	3,477.72	4,673.85	2,985.52	3,766.42	6,026.33	2,657.76	8,047.59	6,250.29	3,577.31	3,122.07	3,122.07	4,382.94	52,008.13
Facility Leases & Rentals	22,788.57	20,608.85	18,972.25	23,682.01	28,549.86	28,231.70	29,343.52	14,044.60	19,725.85	19,731.83	21,344.56	19,234.97	19,234.97	266,338.57
Other Fees	2,123.88	910.82	3,283.58	5,575.54	1,712.56	4,960.76	726.39	1,779.02	3,038.00	1,034.84	1,409.03	1,409.03	1,555.16	28,139.58
Pharmacy Processing Fees	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reimburse & Maintenance	6,888.96	3,119.68	7,711.26	8,956.24	5,681.89	12,661.05	12,896.27	8,635.04	5,067.61	5,734.38	7,789.39	7,789.39	6,089.46	91,231.23
Utilities	2,521.64	2,160.60	1,577.32	1,688.08	1,179.53	1,489.84	1,773.67	324.65	891.32	2,233.46	1,946.34	1,946.34	1,866.56	19,555.91
Insurance	7,779.00	7,779.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	8,091.00	9,439.10	97,816.10
Taxes, Non-Recurring	1,072.12	0.00	463.58	463.58	463.58	832.44	832.44	1,068.71	1,068.71	1,068.71	1,068.71	1,068.71	1,068.71	9,501.29
Other Expenses	8,164.91	11,078.80	7,993.10	9,835.54	9,137.58	8,312.97	12,718.72	7,732.86	7,670.33	10,041.23	7,291.93	7,291.93	9,861.48	109,865.45
Real Estate Expenses	28,617.00	32,214.00	42,927.00	11,695.00	1,988.00	1,110.00	2,479.00	1,250.00	6,146.00	4,653.00	1,252.59	1,252.59	15,282.00	195,004.00
Corporate Services	19,697.31	17,287.94	21,139.39	19,697.31	21,139.39	20,065.36	25,142.11	19,703.08	16,075.12	2,152.59	12,977.91	12,977.91	18,304.95	252,980.45
Total Operating Expenses	884,786.13	815,043.18	911,903.79	830,028.19	883,694.65	842,902.98	990,571.15	776,733.25	956,628.34	785,506.52	754,410.03	754,410.03	871,785.82	10,234,016.03
NET OPERATING PROFIT	154,700.57	354,949.66	148,506.96	775,551.88	447,101.29	268,337.42	192,536.69	136,348.45	265,778.28	112,681.47	256,267.01	256,267.01	375,838.26	2,888,625.94

**C, Orderly Development--7(C)
Licensing Inspection**



May 7, 2013

Re: # 192995

CCN: #442015

Program: Hospital

Accreditation Expiration Date: February 08, 2016

Steve Plumlee
Chief Executive Officer
Select Specialty Hospital - North Knoxville
900 East Oak Hill Avenue
Knoxville, Tennessee 37917

Dear Mr. Plumlee:

This letter confirms that your February 06, 2013 - February 07, 2013 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on April 05, 2013, the areas of deficiency listed below have been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of February 08, 2013. We congratulate you on your effective resolution of these deficiencies.

§482.24 Medical Record Services
§482.41 Physical Environment

The Joint Commission is also recommending your organization for continued Medicare certification effective February 08, 2013. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location:

Select Specialty Hospital - North Knoxville, Inc.
900 East Oak Hill Avenue, Knoxville, TN, 37917

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

www.jointcommission.org

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 792 5000 Voice



Sincerely,

A handwritten signature in dark ink, appearing to read 'Mark G. Pelletier'.

Mark G. Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 4 /Survey and Certification Staff

www.jointcommission.org

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 222 5000 Voice



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919

August 15, 2007

Mr. Joey Sweeney, Administrator
Select Specialty Hospital - North Knoxville
900 East Oak Hill Avenue
Knoxville TN 37917

Dear Mr. Sweeney:

Deficiencies were cited on your annual survey conducted May 30 and 31, 2006. On August 23, 2006, an acceptable Plan of Correction was received in this office.

A revisit was completed August 24, 2006, to verify that your facility had achieved and maintained compliance. Based on our revisit, we found that your facility had demonstrated compliance with the deficiencies cited. This office is recommending recertification in the Medicare and Medicaid programs.

If you should have any questions concerning this letter, please contact our office. 865-588-5656.

Sincerely,

A handwritten signature in cursive script that reads "Faye Vance / afl".

Faye Vance, R.N., B.S., M.S.N.
Public Health Nurse Consultant Manager

FV:afl



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919

August 15, 2006

Ms. Vanda Scott, Administrator
Select Specialty Hospital-North Knoxville
900 East Oak Hill Avenue, 4th Floor
Knoxville TN 37917

Dear Administrator:

Enclosed is a Statement of Deficiencies that was developed as a result of the State Licensure Revisit at Select Specialty Hospital - N. Knoxville on July 19 and August 11, 2006. Corrective action must be achieved prior to September 25, 2006, the forty-fifth (45th) day from the ending date of the survey. A revisit may be conducted to verify compliance.

Please develop a Plan of Correction for the deficiencies cited and return within (10) days after receipt of this letter to:

Health Care Facilities
Lake Shore Park
5904 Lyons View Pike, Bldg. 1
Knoxville, TN 37919

Your FOC must contain the following:

- ☐ What corrective action(s) will be accomplished for those patients found to have been affected by the deficient practice:
- ☐ How will you identify other patients having the potential to be affected by the same deficient practice and what corrective action will be taken.
- ☐ What measures will be put into place or what systemic changes you will make to ensure that the deficient practice does not recur: and
- ☐ How will the corrective action(s) will be monitored to ensure the deficient practice will not recur; i.e., what quality assurance program will be put into place.

If you have any questions, please do not hesitate to call.

Sincerely,

Faye Vance, RN, BS, MSN
Public Health Nurse Consultant Manager

FV:afj
Enclosure: 2567

PRINTED: 08/11/2006
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TNPS21148	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED 08/11/2006
NAME OF PROVIDER OR SUPPLIER SELECT-SPECIALTY HOSPITAL-NORTH KNOX			STREET ADDRESS, CITY, STATE, ZIP CODE 800 OAK HILL AVENUE-4TH FLOOR KNOXVILLE, TN 37917		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)		ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H682	1200-8-1-.06 (4)(k) Basic Hospital Functions (4) Nursing Services. (k) All orders for drugs, devices and related materials must be in writing and signed by the practitioner or practitioners responsible for the care of the patient. Electronic and computer-generated records and signature entries are acceptable. When telephone or oral orders must be used, they must be: 1. Accepted only by personnel that are authorized to do so by the medical staff policies and procedures, consistent with federal and state law; and, 2. Signed or initiated by the prescribing practitioner according to hospital policy. This Statute is not met as evidenced by: Based on medical record review, review of facility policy, interview and observation, the facility failed to obtain a physician's order for restraints for one (#4) of two patients reviewed with restraints. The findings included: Patient # 4 was admitted to the facility on August 7, 2006, with an admission diagnosis of Respiratory Failure with Ventilator. Medical record review revealed a nursing note dated August 11, 2006, at 4:30 am, stating "Pt has pulled on flexiflow tube and appears to have aspirated tube feeding. Suctioned large amount thick tan sputum. Bilateral wrist restraints placed for safety." Medical record review on August 11, 2006, at 9:30 am, revealed no physician's order for the soft bilateral wrist restraints. Review of the		H682	1200-8-1-.06 (4)(k) <u>Findings:</u> A medical record review, review of facility policy, interview and observation, the facility failed to obtain a physician's order for restraints for one of two patients reviewed with restraints. <u>POC:</u> Nurse Manager reviewed the Restraint Policy and obtaining a physician's order prior to or immediately after restraints are applied with staff in meeting on 8/25/06. Also, monitoring physician initial order has been added to the audit form. <u>Responsible:</u> Nurse Manager, Nursing Staff <u>Monitoring:</u> Nurse Manager will audit all restraint charts weekly for compliance with staff follow-up and corrective action. <u>Patient #4:</u> This cannot be retrospectively corrected. The nurse who was caring for the patient at the time of restraint application was not at the staff meeting mentioned above and was provided one-on-one instruction by the Nurse Manager.	

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

STATE FORM

6899

GW6H11

TITLE

CEO

8/22/06

(X6) DATE

If continuation sheet 1 of 2

PRINTED: 08/11/2006
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TNP531148	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED 08/11/2006
NAME OF PROVIDER OR SUPPLIER SELECT SPECIALTY HOSPITAL-NORTH KNOX			STREET ADDRESS, CITY, STATE, ZIP CODE 900 OAK HILL AVENUE-4TH FLOOR KNOXVILLE, TN 37917		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE	
H 682	Continued From page 1	H 682			
	facility's Restraint and Seclusion Policy states "...3. Obtain a physician's order prior to the application of a restraint. In an emergency situation, the need for restraint may occur so quickly that an order cannot be obtained prior to application. In this situation an order must be obtained either during the emergency application or immediately after the restraint has been applied..." Interview with the Nurse Manager on August 11, 2006, at 9:45 am, confirmed no physician's order for the application of restraints was obtained. Observation on August 11, 2006, at 11:30 am, revealed the patient was lying in bed with a tracheostomy tube hooked to T-Bar oxygen tubing with bilateral soft wrist restraints secured to the bed frame with quick release ties.				
H 713	1200-8-1-.06 (6)(h) Basic Hospital Functions (6) Pharmaceutical Services. (h) Whenever patients bring drugs into an institution, such drugs shall not be administered unless they can be identified and ordered to be given by a physician. This Statute is not met as evidenced by: Based on observation, medical record review and interview, the facility failed to obtain a physician's order for self-administration of medications, failed to label one self-administration medication bottle with a pharmacy label, failed to assess a patient for self-administration of medications and failed to have a pharmacist counsel the patient who is self-administering medications for one (#8) of three patients reviewed for medication administration. The findings included:	H 713	1200-8-1-.06 (6) (h) <u>Findings:</u> Observation, medical record review and interview, the facility failed to obtain a physician's order for self-administration of medications; failed to label one self-administration medication bottle with a pharmacy label, failed to assess a patient for self-administration of medications and failed to have a pharmacist counsel the patient who is self-administering medications for one patient of three patients reviewed for medication administration. <u>POC:</u> Upon investigating the origin of the non-labeled bottle, the bottle was found to originate from the transferring hospital (St. Mary's). The Nurse Manager, in staff meetings, instructed the staff to review medications with the patient, patient's family, and physician. Document in the admission assessment any medications brought in from home or the transferring facility and instruct the family to take the medication home. Patient's who self-administer medication will do so in accordance with policy and procedure. Staff will be re-educated on policy and procedure by August 31, 2006. <u>Responsible:</u> Nurse Manager, Nursing staff <u>Monitoring:</u> Weekly rounds by Charge Nurse, Nurse Manager, Monthly rounds by Quality	8/25/06	

Division of Health Care Facilities
STATE FORM

6095

GW9H11

If continuation sheet 2 of 3

PRINTED: 08/11/2006
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TNP531148	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED 08/11/2006
NAME OF PROVIDER OR SUPPLIER SELECT SPECIALTY HOSPITAL-NORTH KNOX			STREET ADDRESS, CITY, STATE, ZIP CODE 900 OAK HILL AVENUE-4TH FLOOR KNOXVILLE, TN 37917		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE	
H 713	Continued From page 2 Patient # 8 was admitted to the facility on July 27, 2006, with admission diagnoses including Respiratory Failure, Pelvic Fracture and Pneumonia. Observation on August 11, 2006, at 11:10 am, revealed the following medications lying on the patient's over-bed table: a nasal spray prescription bottle dispensed on July 28, 2006, labeled Flunisolide 0.25 % 2 sprays every day (Flunisolide/Flonase); a 45 ml nasal prescription bottle dispensed on July 28, 2006, labeled Sodium Chloride 0.65 % Spray Solution 2 sprays; and a 16 gm nasal spray bottle of Fluticasone Propionate 50 mcg with no instructions or pharmacy label (Fluticasone Propionate/Flovent). Medical record review revealed the following physician's orders dated July 27, 2006: Flonase 2 sprays each nostril every day and Nasal Saline 2 sprays every 4 hours while awake. Medical record review revealed no physician's order for self-administration of medications, no assessment for self-administration of medication, and no pharmacist's instructions for self-administration of medications. Interview with the Registered Nurse on August 11, 2006, at 11:20 am, confirmed the patient self-administers the nasal spray because is an "as needed medication". Interview with the Pharmacist on August 11, 2006, at 11:25 am, revealed no patients in the facility self-administer medications. Interview with the Quality Manager on August 11, 2006, at 11:30 am, confirmed all medications bottles should have a pharmacy label, the patient was not assessed to self-administer medications, there is no physician's order for self-administration of medications and there are no pharmacist's instruction on how to self-administer medications.	H713	1200-8-1-06 (6) (h) Patient #8: The medications were removed from the bedside. Investigation began on the non-labeled bottle. It was found that the bottle was not dispensed by Select and was transferred with patient from St. Mary's Hospital. The wife was instructed to take the medication home.	8/11/06	

Division of Health Care Facilities

STATE FORM

8208

GW9H11

If continuation sheet 3 of 3

PRINTED: 07/19/2006
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TNP531148	(X2) MULTIPLE CONSTRUCTION A. BUILDING 01 - MAIN B. WING _____	(X3) DATE SURVEY COMPLETED R 07/19/2006
NAME OF PROVIDER OR SUPPLIER SELECT SPECIALTY HOSPITAL-NORTH KNOX		STREET ADDRESS, CITY, STATE, ZIP CODE 900 OAK HILL AVENUE-4TH FLOOR KNOXVILLE, TN 37917		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
{H 871}	1200-8-1-.08 (1) Building Standards (1) The hospital must be constructed, arranged, and maintained to ensure the safety of the patient. This Statute is not met as evidenced by: Based on observation, the facility continued to fail in assuring the means of egress was continuously maintained free from obstruction or impediments to full instant use in case of fire or other emergency (NFPA 101, 7.1.10.1). The findings include: Observation on May 31, 2006, between 9:30 a.m. to 11:00 a.m., revealed the corridor was obstructed with the following: one scale, two lift chair/devices, two wheelchairs, one chair, one beige cart, one grey cart, two linen carts, one IV pole, two blood pressure stations, one bed, and two housekeeping carts. Observation on July 19, 2006, between 7:30 a.m. and 8:45 a.m., revealed the corridor was obstructed with the following: two scales, three lift chair/devices, one wheelchair, one patient lift, one small linen cart, one grey cart, four blood pressure/vital sign stations, and one housekeeping cart.	H871	1200-8-1-.08 (1) <u>Findings:</u> Observation on July 19, 2006 between 7:30 am and 8:45 am, revealed the corridor was obstructed with the following: two scales, three lift chair/devices, one wheelchair, one patient lift, one small linen cart, one grey cart, four blood pressure/vital sign stations, and one housekeeping cart. <u>POC:</u> A patient room 453 & 454 was converted to a storage room. The lift chairs, BP machines, wheelchairs, scales etc. are kept in this room. Only yellow isolation carts for patients are kept outside of the patient's room. The Nurse Manager informed staff where equipment is to be stored. <u>Monitoring:</u> Daily Charge Nurse rounds, Monthly Safety and Quality Rounds	7/18/06-7/22/06
{H 893}	1200-8-1-.08 (23) Building Standards. (23) A negative air pressure shall be maintained in the soiled utility area, toilet room, janitor's closet, dishwashing and other such soiled spaces, and a positive air pressure shall be maintained in all clean areas including, but not limited to, clean linen rooms and clean utility rooms.	{H 893}		

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

STATE FORM

6558

02N222

If continuation sheet 1 of 2

PRINTED: 07/19/2006
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TNP531148	(X2) MULTIPLE CONSTRUCTION A. BUILDING 01 - MAIN B. WING _____		(X3) DATE SURVEY COMPLETED R 07/19/2006
NAME OF PROVIDER OR SUPPLIER SELECT SPECIALTY HOSPITAL-NORTH KNOX			STREET ADDRESS, CITY, STATE, ZIP CODE 500 OAK HILL AVENUE-4TH FLOOR KNOXVILLE, TN 37917		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE	
(H 893)	Continued From page 1	H 893	1200-R-1.08 (23) Building Standards		
	<p>This Statute is not met as evidenced by: Based on observation, the facility continued to fail in maintaining positive air pressure in a clean utility room.</p> <p>The findings include:</p> <p>Observation on May 31, 2006, at 9:55 a.m., revealed the clean equipment room was not provided with an air supply to maintain positive air pressure.</p> <p>Observation on July 19, 2006, at 8:30 a.m., revealed the clean equipment room/clean linen room was not provided with an air supply to maintain positive air pressure.</p>	H 893	<p><u>Findings:</u> Observation on July 19, 2006 at 08:30 am, revealed the clean equipment room/clean linen room was not provided with an air supply to maintain positive pressure.</p> <p><u>POC:</u> The dirty linen room was terminally cleaned due to this room having positive pressure. This room is designated for the Clean linen-cart. Worked with host to ensure positive pressure is being maintained in this room. Nurse Manager reviewed with staff the room change and the need to maintain as designated.</p> <p><u>Monitoring:</u> This room is permanently designated as the clean linen room. Daily monitoring by Charge Nurse to ensure this room is maintained as designated</p>	7/18/06- 7/22/06	

Division of Health Care Facilities
STATE FORM

6899

02NZ22

If continuation sheet 2 of 2

POST-LICENSURE REVISIT REPORT		LICENSE NUMBER	DATE OF REVISIT 8/24/06
NAME OF FACILITY Select Specialty Hosp. - North Knox		STREET ADDRESS, CITY, STATE, ZIP CODE 900 Oak Hill Ave. Knoxville, TN 37917	
<p>This report is completed by a qualified State surveyor for the Tennessee Licensure programs, to show those deficiencies previously reported on the Licensure Statement of Deficiencies and Plan of Correction, that have been corrected and the date such corrective action was accomplished. Each deficiency should be fully identified using the regulation number previously shown on the Licensure Statement of Deficiencies and Plan of Correction Form. If all deficiencies are not corrected, the surveyor should check the block at the bottom right of this form indicating the need for the completion of the Licensure-E, Summary of Deficiencies Not Corrected.</p>			
ITEM	DATE	ITEM	DATE
1200-8-1-06(4)(K) H682	Correction Completed 8/25/06	1200-8-1-06(h) H713	Correction Completed 8/25/06
1200- _____	Correction Completed ____/____/____	1200- _____	Correction Completed ____/____/____
1200- _____	Correction Completed ____/____/____	1200- _____	Correction Completed ____/____/____
1200- _____	Correction Completed ____/____/____	1200- _____	Correction Completed ____/____/____
1200- _____	Correction Completed ____/____/____	1200- _____	Correction Completed ____/____/____
REVIEWED BY STATE AGENCY	REVIEWED BY: (INITIALS)	DATE	SIGNATURE OF STATE SURVEYOR
		8/24/06	
FOLLOWUP TO SURVEY COMPLETED ON 8/11/06		TITLE PAC # 2	

Form Licensure-B
PH-0151
MCF 5/88

☐ SEE ATTACHED LICENSURE FORM FOR ANY UNCORRECTED DEFICIENCIES

Page ____ of ____

POST-LICENSURE REVISIT REPORT		LICENSE NUMBER 531148	DATE OF REVISIT 8/24/06
NAME OF FACILITY Select Specialty Hospital - North Knox		STREET ADDRESS, CITY, STATE, ZIP CODE 900 Oak Hill Avenue - 4th Floor Knoxville TN 37917	
<p>This report is completed by a qualified State surveyor for the Tennessee Licensure programs, to show those deficiencies previously reported on the Licensure Statement of Deficiencies and Plan of Correction, that have been corrected and the date such corrective action was accomplished. Each deficiency should be fully identified using the regulation number previously shown on the Licensure Statement of Deficiencies and Plan of Correction Form. If all deficiencies are not corrected, the surveyor should check the block at the bottom right of this form indicating the need for the completion of the Licensure-E, Summary of Deficiencies Not Corrected.</p>			
ITEM	DATE	ITEM	DATE
1200- <u>Y-1-.08(1)</u> H 871	Correction Completed 7/22/06	1200- <u>Y-1-.08(2)</u> H 893	Correction Completed 7/22/06
1200-_____	Correction Completed ____/____/____	1200-_____	Correction Completed ____/____/____
1200-_____	Correction Completed ____/____/____	1200-_____	Correction Completed ____/____/____
1200-_____	Correction Completed ____/____/____	1200-_____	Correction Completed ____/____/____
1200-_____	Correction Completed ____/____/____	1200-_____	Correction Completed ____/____/____
1200-_____	Correction Completed ____/____/____	1200-_____	Correction Completed ____/____/____
REVIEWED BY STATE AGENCY	REVIEWED BY: (INITIALS) RNB	DATE 8/24/06	SIGNATURE OF STATE SURVEYOR Karen Barkley
FOLLOWUP TO SURVEY COMPLETED ON 7/17/06		TITLE Fire Safety Specialist	

Form Licensure-B
PH-0151
HCF 6/88

☐ SEE ATTACHED LICENSURE FORM FOR
ANY UNCORRECTED DEFICIENCIES

Page ____ of ____

SUPPORT LETTERS

11/11/13

AFFIDAVITSTATE OF TENNESSEECOUNTY OF DAVIDSON

JOHN WELLBORN, being first duly sworn, says that he is the lawful agent of the applicant named in this application, that this project will be completed in accordance with the application to the best of the agent's knowledge, that the agent has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of the agent's knowledge.

John Wellborn
SIGNATURE/TITLE

Sworn to and subscribed before me this 4 day of December, 2013 a Notary
(Month) (Year)

Public in and for the County/State of DAVIDSON / TENNESSEE

[Signature]
NOTARY PUBLIC

My commission expires 1-11, 2017
(Month/Day) (Year)



COPY- SUPPLEMENTAL-1

Select Specialty Hosp. NKnoxville

CN1312-047

SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE--C2012 ADMISSIONS BY SOURCE									
TOTAL ADMISSIONS					MEDICARE ADMISSIONS				
37.57%	133	440120-H	Physicians Regional Medical Ce		36.91%	86	440120-H	Physicians Regional Medical Ce	
20.34%	72	440015	University of Tennessee Medical		18.03%	42	440015	University of Tennessee Medical	
7.06%	25	440173	PARKWEST MEDICAL CENTER		7.73%	18	440173	PARKWEST MEDICAL CENTER	
7.06%	25	440226	Turkey Creek Medical Center		7.73%	18	440226	Turkey Creek Medical Center	
5.08%	18	440034	Methodist Medical Center of Oa		6.01%	14	440034	Methodist Medical Center of Oa	
4.24%	15	440173-A	Parkwest Medical Center		3.86%	9	440173-A	Parkwest Medical Center	
3.39%	12	440120-A	North Knoxville Medical Center		2.57%	6	440125-B	FORT SANDERS REGIONAL MEDICAL	
1.98%	7	440125-B	FORT SANDERS REGIONAL MEDICAL		2.15%	5	440056	Jefferson Memorial Hospital	
1.69%	6	440056	Jefferson Memorial Hospital		2.15%	5	440120-A	North Knoxville Medical Center	
1.69%	6	440110	Fort Loudoun Medical Center		1.72%	4	440011	Blount Memorial Hospital	
1.41%	5	44X452	ANY OTHER REFERRAL SOURCE		1.72%	4	440110	Fort Loudoun Medical Center	
1.41%	5	440011	Blount Memorial Hospital		1.29%	3	44X452	ANY OTHER REFERRAL SOURCE	
1.13%	4	440030	MORRISTOWN-HAMBLE HOSPITAL		1.29%	3	440030	MORRISTOWN-HAMBLE HOSPITAL	
0.85%	3	440009	CUMBERLAND MEDICAL CENTER		0.86%	2	44HOME	HOME	
0.85%	3	440032	HAWKINS COUNTY MEMORIAL HOSPITAL		0.86%	2	440009	CUMBERLAND MEDICAL CENTER	
0.85%	3	440081	LeConte Medical Center		0.86%	2	440032	HAWKINS COUNTY MEMORIAL HOSPITAL	
0.56%	2	440052	SCOTT COUNTY HOSPITAL		0.86%	2	440052	SCOTT COUNTY HOSPITAL	
0.56%	2	440084	SWEETWATER HOSPITAL ASSOCIATIO		0.86%	2	440084	SWEETWATER HOSPITAL ASSOCIATIO	
0.28%	1	10083	SOUTH BALDWIN REGIONAL MEDICAL		0.43%	1	10083	SOUTH BALDWIN REGIONAL MEDICAL	
0.28%	1	360180	THE CLEVELAND CLINIC		0.43%	1	360180	THE CLEVELAND CLINIC	
0.28%	1	44HOME	HOME		0.43%	1	440039	VANDERBILT UNIVERSITY MEDICAL	
0.28%	1	440033	LaFollette Medical Center		0.43%	1	440059	COOKEVILLE REGIONAL MEDICAL CE	
0.28%	1	440039	VANDERBILT UNIVERSITY MEDICAL		0.43%	1	440081	LeConte Medical Center	
0.28%	1	440059	COOKEVILLE REGIONAL MEDICAL CE		0.43%	1	440104	ERLANGER BARONESS	
0.28%	1	440104	ERLANGER BARONESS						
0.28%	1	445107	NATIONAL HEALTHCARE						
100.0%	354				100.0%	233			

Source: Select Specialty Hospital--Corporate Management Staff

Note: Shading denotes hospitals constituting approximately 90% of all referrals to SSN-NK

December 16, 2013

Phillip M. Earhart, HSD Examiner
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application CN1312-047
Select Specialty Hospital--North Knoxville

Dear Mr. Earhart:

This letter responds to your recent request for additional information on this application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

1. Section A, Applicant Profile, Item 4

a. Please submit documentation from the Tennessee Secretary of State website that verifies Select Specialty Hospital is an active corporation.

The requested documentation is attached following this page.

b. Please clarify the relationship between Intensia Hospital of Knoxville, Inc. and the applicant.

1. Intensiva Hospital of Knoxville, Inc. was organized by another hospital company on February 6, 1977 as a Missouri corporation, received authorization to do business in Tennessee, and operated this facility for several years under the name "Intensiva Hospital of Knoxville".

2. Select purchased the facility's parent company in the late 1990's. On February 5, 1999, Select amended Intensiva Hospital of Knoxville, Inc.'s Missouri articles to reflect a name change to "Select Specialty Hospital--North Knoxville, Inc.", which is still this Missouri entity's name. Then, on March 5, 1999, the entity's Tennessee Certificate of Authority was also amended to reflect that name change. As documented in Attachment A.4 of the original submittal, Select Specialty Hospital--North Knoxville, Inc. holds a November 25, 2013 Certificate of Good Standing as a Missouri corporation. It is also active in Tennessee as documented by the response to 1a above (see following page).

Page Two
December 16, 2013

c. Select Medical Corporation appears to have several lines of business such as long-term acute care, medical rehab, physical therapy, and business solutions. Please provide a general overview of these services and how many of each type are located in each state in which they operate.

The company operates between one and two thousand service sites across the United States--including 110 specialty hospitals, nearly 1,000 outpatient rehabilitation clinics, and services to hundreds of skilled nursing facilities, senior care centers, schools and pediatric centers, worksites, and private homes.

It is not practical to submit information on all of these nationally, by State. Select's licensed hospitals in Tennessee are listed in Attachment A-4 of the submitted application, consistent with its last Tennessee CON application (Memphis).

However, after this page Select is attaching several excerpts from the parent company's 2012 Annual Report and 10K report, which describe Select's several lines of services and provide a national map for major facility locations.

d. Please provide an ownership chart for the applicant that includes the percentage of ownership.

That information was provided in narrative form on page 8 of the submitted application. Attached following this page is an organization chart showing the same information.

2. Section A, Applicant Profile, Item 6

The Agency will need a deed, a purchase agreement, lease agreement, option to lease or other legal document which demonstrates the applicant has a legitimate legal interest in the property on which to locate the project. A fully executed (signed by both parties) Option to Purchase must at least include the expected purchase price, a description of the property with address and the anticipated date of closing. A fully executed Option to Lease must at least include the expected term of the lease and the anticipated lease payments.

This will be submitted under separate cover as soon as it is fully executed.

Page Three
December 16, 2013

3. Section A, Applicant Profile, Item 13

a. The applicant notes United Community Healthcare (UHC) Plan is not contracted, but the applicant has pursued a contract. Please clarify what the current barriers are in obtaining a TennCare contract with UHC.

Select does not have such barriers but UHC has had, when queried. For example, most recently in August 2012 Select asked UHC to discuss a contract. E-mail exchanges concluded in the following UHC response, sent to Select August 29, 2012: "...they (*UHC TennCare section*) prefer to handle on a case by case basis rather than contracting." (D. Slawson, Senior Network Contractor, UHC, Little Rock, AR).

When a TennCare MCO enrollee is cared for in a contracted general acute care hospital, an MCO's reimbursement to that hospital has a contractual limit, regardless of how long the patient needs care. But if that patient is discharged to a contracted LTACH for a second acute care stay, the MCO must start paying for care a second time. It is obviously financially advantageous for an MCO to have the patient remain where they were initially hospitalized, letting the hospital bear the burden of clinically necessary care after the HCO's reimbursement obligation is met. Lack of a financial incentive to incur a second reimbursement obligation may be one factor in an MCO's decision on whether to contract with an LTACH.

b. Please also clarify why there is not a contract with TennCare Select.

Select Specialty Hospital--North Knoxville reports that it almost never receives requests for admissions of this small group of patients. In CY2013, it has had only one physician request admission of a TennCare Select patient; one admission was granted. TennCare Select is the backup plan for a small number of enrollees Statewide, concentrating on children in State custody, children who are in an institutional eligibility category, persons with intellectual disabilities, and children with Social Security benefits. Select does not admit any patients younger than 14.

c. Where are patients in the proposed service area who are enrolled in UHC and TennCare Select referred to for LTAC services?

The applicant has no way of knowing this. It seems unlikely that they would be referred to another part of the State for LTACH care, since the cost of that to the MCO would be about the same (or more) than at Select Specialty in Knoxville. They may remain in the general hospital where they were initially admitted, even after reimbursement from the TennCare MCO's is exhausted, making that hospital responsible for the costs of extended care.

Page Four
December 16, 2013

4. Section B, Project Description, Item I.

a. The applicant has requested consent calendar for this project. Please address the reason consent calendar is being requested as it relates to each of the following: 1) Need, 2) Economic Feasibility, and the 3) Orderly development to health care.

Need--The relocation of the facility to a newer building is needed to increase Select's percentage of private patient rooms, to offer the public larger patient rooms with appropriate temperature control, and to eliminate in appropriate maintenance costs such as the water intrusion problems in its current location. The LTACH option is needed by area hospitals to reduce their costs of continuing care for fragile patients who require acute care for many weeks beyond the initial DRG-specified hospital length of stay.

Economic Feasibility--The project will be funded by the applicant's cash reserves. The facility has operated historically with a positive cash flow and net operating income, and is reasonably projected to continue to do so after its proposed relocation.

Contribution to the Orderly Development of Health Care--The project will improve the patient's physical surroundings to match public expectations in a tertiary care referral center such as Knoxville. It will provide more comfortable and efficient patient surroundings. It will not increase the area's or the facility's licensed bed complements, or change the service area of the facility.

b. What is the facility age of the current fourth floor LTAC leased space at 900 East Oak Hill Avenue, Knoxville?

The Select leased space covers portions of two wings. One was built 67 years ago (1946) and the other was built 57 years ago (1957). So the leased space is on average more than 60 years old. Select is concerned that if renovation were attempted to fix the problems with utility systems and envelope integrity (water penetration issues), expensive problems such as asbestos insulation would be encountered; and it would be impossible to conduct patient care in this small nursing area while heavy renovation is taking place.

Page Five
December 16, 2013

c. Please compare the current lease expense at the existing location to the lease expense at the new proposed location.

At the existing location, Select leases 13,110 RSF of 60-year old space for \$19.93 PRSF. The new lease will be for 25,107 RSF at \$21.97 PRSF in CY2015. (Note that the Year One/CY2015 rent in the Projected Data Chart (\$564,651) exceeds the product of the rent rate times the rentable square footage (\$551,600). That is because the rent line of the chart includes pass-through payments to cover costs of utilities, taxes, common area maintenance, and other variable expenses that will be paid in addition to the lease rate, at the new location.)

d. Is there a 25% threshold limit that applies to the number of patients admitted from the proposed new location at North Knoxville Medical Center? When responding please explain the 25% threshold limit.

Yes, there will be a 25% limit on the number of Medicare patients that can be admitted from the proposed North Knoxville Medical Center location. The 25% rule does not apply to non-Medicare admissions.

For a "co-located", on-campus LTACH (such as Select at North Knoxville Medical Center), no more than 25% of its Medicare admissions may come from any single provider location.

For "non co-located" free-standing LTACH facilities (not on a provider's campus), there is a variation of the rule. Those LTACH's can also accept up to 25% from any hospital--but no more than 25% combined from two or more hospitals sharing the same provider number.

e. Please complete the following table for the source of LTAC admissions of Select Specialty Hospital-North Knoxville in 2012.

Admission Source	Admissions	% Total
Physicians Reg. Hospital		
North Knoxville Medical Ctr.		
etc		

The applicant's 2012 admissions are shown by referral source in the supplemental table following this page.

Page Six
December 16, 2013

f. Does the applicant expect the patient admission mix to change at the new location? If so, how will it change?

The applicant does not anticipate that the referral sources or case mix will change in any significant way due to the relocation.

5. Section B, Item II.A.

Please submit a square footage and costs per square footage chart.

The requested chart is attached following this page. It was prepared by Taggart Architecture, the project's architectural firm.

6. Section B, Item II.D.

**What are the dimensions of the private rooms at the new proposed site?
What are the LTAC private room dimensions recommended by AIA?**

Taggart Architecture says that, excluding their vestibules, the new LTACH rooms will be 11 feet 9 inches long (headwall to footwall) and 12 feet 10 inches wide--approximately 151 SF of space. Taggart says that AIA Guidelines do not specifically address LTACH rooms, but do require a typical medical-surgical patient room to have at least 100 SF.

7. Section B, Project Description Item III.A.(Plot Plan)

a. The plot plan appears to be labeled incorrectly in the attachments. Please revise tab.

The plot plan's name (at the bottom of the page) has been changed to "North Knoxville Medical Center" on the revised plot plan attached following this page.

The originally submitted version was labeled "St. Mary's" because the plot plan was printed when the campus was developed by Mercy Health System.

Page Seven
December 16, 2013

b. There appears to be limited parking areas in the rear of the building next to the proposed LTAC, please clarify. Also, is there a covering for patient access near the proposed LTAC site?

All patients coming to the LTACH for admission will first come by ambulance transport (not private vehicles) to North Knoxville Medical Center's Emergency Department, which does have an entrance canopy. The patients will then be moved through the hospital and through a connector to the Physician's Plaza MOB, where they will be admitted to the LTACH.

The site plan is only an older artist's rendering of the campus. It does not show precise numbers of parking spaces. Parking for the proposed LTACH will be available in both covered parking (a garage attached by connectors to the MOB) and in surface parking, and will meet licensure and local government's code requirements--as already attested to by the architect's letter in the Attachments.

8. Section B, Project Description Item III.B.1

Table five of mileage and drive times are noted. However, please clarify why the distance from Oak Ridge (Anderson County) to the proposed and current site is different (19.4 miles vs. 26.4), but the traveling time is the same (31 minutes).

As footnoted on Table Five, Google Maps is the source for that information. When preparing the application, the applicant noticed those identical 31 minute drive times, and at that time re-checked Google Maps--again getting identical drive times. The applicant assumes that this reflects the availability of higher-speed roadways between Oak Ridge and central Knoxville than between Oak Ridge and Powell.

The applicant has found that Google Maps' drive times and distances may vary slightly if queried many days apart. So on December 11 Google Maps were again queried about this, with the results shown below: very similar drive times for very different driving distances.

<u>County</u>	<u>City</u>	<u>To Proposed Site</u>		<u>To Current Site</u>	
		<u>Miles</u>	<u>Minutes</u>	<u>Miles</u>	<u>Minutes</u>
Anderson	Oak Ridge	19.8	31	26.8	33

Page Eight
December 16, 2013

9. Section C, Economic Feasibility, Item 4. (Projected Data Chart)

a. What is included in Ancillary Patient Services line expense of \$2,167,396 in Year 2015?

The ancillary patient services expense line includes all services provided to patients through contracts with a third party. They include dietary meal trays, laundry, housekeeping, cardiac therapy, labs, radiology, EKG/EEG, dialysis, blood, Nuclear Medicine, CT, MRI, and surgical procedures.

b. Please clarify why the equipment rental expenses and corporate services expenses are the exact amount in Year 2015 (\$238,700) and 2016 (\$241,175).

For CY2013, Select's rental equipment is costing \$28.31 per patient day. Anticipating the purchase of some equipment as part of the move, Select projects that in CY2015 and CY2016, equipment rental cost will be reduced to \$25 PPD. However, the CY2013 PPD cost for corporate services is \$24.88 PPD; and Select projects a slight cost increase to \$25 PPD. These two changes offset one another closely, resulting in the submitted projections.

c. Please clarify if the applicant will be paying for construction costs in addition to lease expense.

Select expects to pay for construction costs, based on current drafts of the lease being negotiated.

d. Please explain why net operating income is projected to fall from \$1,103,710 in Year 2013 at the current location, to \$235,641 in Year One at the proposed new location.

Projected net operating income decreases as a result of increased depreciation. Select expects to see depreciation increase by \$1,176,753 in Year One at the new location. It projects that income will decrease by approximately \$868,000.

Page Nine
December 16, 2013

10. Section C, Economic Feasibility, Item 10.

Please provide the most recent audited financial statements for Select Medical Corporation.

The audited consolidated balance sheet and income statement for the ultimate parent company, Select Medical Holdings Corporation, are attached following this page. The source is the company's combined 2012 Annual Report / 10K filing.

This is a very large, publicly traded company. Its reports are approximately two hundred pages long. Because the parent company is not the CON applicant here, and is not providing the funding for the project, hopefully its entire lengthy audited statements with notes are not needed for this review. However, Select will be happy to submit notarized hard copy of any additional sections of this lengthy document, that HSDA staff identifies as required for the review. The entire parent company document can be inspected at the following link.

http://www.selectmedical.com/uploadedFiles/Content/Investor_Relations/Annual_Financial_Information/2012-Annual-Report-10K-Combined.pdf

11. Section C, Orderly Development, Item 1.

Please list the service area hospitals the applicant has transfer agreements and which ones they do not.

Select reports that it does not maintain current emergency transfer agreements for patients it receives. Although all Select's admissions arrive by ambulance, they are coming from a prior hospital stay. They are always fully stabilized long before discharge to Select, so they do not need emergency care. Emergency transfer agreements have not been considered necessary, by either the discharging or the receiving hospital. However, if any area hospital were to request such an agreement, it would be done.

For Select patients needing a transfer to an emergency room, the destination will always be the ED of the host hospital where Select is located. For the current location at East Oak Hill Avenue, neither Tennova (the hospital's current owner) nor Mercy Health System (the hospital's prior owner) has felt that an emergency transfer agreement was needed for such internal transport. However, Select will be happy to execute a transfer agreement with Tennova North Knoxville Medical Center if requested by that facility.



SELECT MEDICAL
HOLDINGS CORPORATION
**2012 ANNUAL
REPORT**

IMPROVING QUALITY OF LIFE.

PART I FINANCIAL INFORMATION**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Balance Sheets**
(in thousands, except share and per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 12,043	\$ 40,144	\$ 12,043	\$ 40,144
Accounts receivable, net of allowance for doubtful accounts of \$47,469 and \$41,854 in 2011 and 2012, respectively	413,743	359,929	413,743	359,929
Current deferred tax asset	18,305	17,877	18,305	17,877
Prepaid income taxes	9,497	3,895	9,497	3,895
Other current assets	29,822	31,818	29,822	31,818
Total Current Assets	483,410	453,663	483,410	453,663
Property and equipment, net	510,028	501,552	510,028	501,552
Goodwill	1,631,716	1,640,534	1,631,716	1,640,534
Other identifiable intangibles	72,123	71,745	72,123	71,745
Assets held for sale	2,742	2,742	2,742	2,742
Other assets	72,128	91,125	70,719	90,077
Total Assets	\$2,772,147	\$2,761,361	\$2,770,738	\$2,760,313
LIABILITIES AND EQUITY				
Current Liabilities:				
Bank overdrafts	\$ 16,609	\$ 17,836	\$ 16,609	\$ 17,836
Current portion of long-term debt and notes payable	10,848	11,646	10,848	11,646
Accounts payable	95,618	89,547	95,618	89,547
Accrued payroll	82,888	88,586	82,888	88,586
Accrued vacation	51,250	55,714	51,250	55,714
Accrued interest	15,096	22,016	11,980	18,759
Accrued restructuring	5,027	1,726	5,027	1,726
Accrued other	101,076	100,314	106,316	105,554
Due to third party payors	5,526	1,078	5,526	1,078
Total Current Liabilities	383,938	388,463	386,062	390,446
Long-term debt, net of current portion	1,385,950	1,458,597	1,218,650	1,291,297
Non-current deferred tax liability	82,028	89,510	82,028	89,510
Other non-current liabilities	64,905	68,502	64,905	68,502
Total Liabilities	1,916,821	2,005,072	1,751,645	1,839,755
Redeemable non-controlling interests	8,988	10,811	8,988	10,811
Stockholders' Equity:				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 145,268,190 shares and 140,589,256 shares issued and outstanding in 2011 and 2012, respectively	145	141	—	—
Common stock of Select, \$0.01par value, 100 shares issued and outstanding	—	—	0	0
Capital in excess of par	493,828	473,697	848,844	859,839
Retained earnings	325,706	243,210	134,602	21,478
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	819,679	717,048	983,446	881,317
Non-controlling interests	26,659	28,430	26,659	28,430
Total Equity	846,338	745,478	1,010,105	909,747
Total Liabilities and Equity	\$2,772,147	\$2,761,361	\$2,770,738	\$2,760,313

The accompanying notes are an integral part of these consolidated financial statements.

Select Medical Holdings Corporation
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share amounts)

	<u>For the Year Ended December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net operating revenues	\$2,390,290	\$2,804,507	\$2,948,969
Costs and expenses:			
Cost of services	1,982,179	2,308,570	2,443,550
General and administrative	62,121	62,354	66,194
Bad debt expense	41,147	51,347	39,055
Depreciation and amortization	68,706	71,517	63,311
Total costs and expenses	<u>2,154,153</u>	<u>2,493,788</u>	<u>2,612,110</u>
Income from operations	236,137	310,719	336,859
Other income and expense:			
Loss on early retirement of debt	—	(31,018)	(6,064)
Equity in earnings (losses) of unconsolidated subsidiaries	(440)	2,923	7,705
Other income	632	—	—
Interest income	—	322	—
Interest expense	<u>(112,337)</u>	<u>(99,216)</u>	<u>(94,950)</u>
Income before income taxes	123,992	183,730	243,550
Income tax expense	<u>41,628</u>	<u>70,968</u>	<u>89,657</u>
Net income	82,364	112,762	153,893
Less: Net income attributable to non-controlling interests	<u>4,720</u>	<u>4,916</u>	<u>5,663</u>
Net income attributable to Select Medical Holdings Corporation	77,644	107,846	148,230
Other comprehensive income:			
Unrealized gain on interest rate swap, net of tax	<u>8,914</u>	<u>—</u>	<u>—</u>
Comprehensive income attributable to Select Medical Holdings Corporation	<u>\$ 86,558</u>	<u>\$ 107,846</u>	<u>\$ 148,230</u>
Income per common share:			
Basic	\$ 0.49	\$ 0.71	\$ 1.05
Diluted	\$ 0.48	\$ 0.71	\$ 1.05

The accompanying notes are an integral part of these consolidated financial statements.

Select Medical Corporation
Consolidated Statements of Operations and Comprehensive Income
(in thousands)

	For the Year Ended December 31,		
	2010	2011	2012
Net operating revenues	\$2,390,290	\$2,804,507	\$2,948,969
Costs and expenses:			
Cost of services	1,982,179	2,308,570	2,443,550
General and administrative	62,121	62,354	66,194
Bad debt expense	41,147	51,347	39,055
Depreciation and amortization	68,706	71,517	63,311
Total costs and expenses	2,154,153	2,493,788	2,612,110
Income from operations	236,137	310,719	336,859
Other income and expense:			
Loss on early retirement of debt	—	(20,385)	(6,064)
Equity in earnings (losses) of unconsolidated subsidiaries	(440)	2,923	7,705
Other income	632	—	—
Interest income	—	322	—
Interest expense	(84,472)	(81,232)	(83,759)
Income before income taxes	151,857	212,347	254,741
Income tax expense	51,380	80,984	93,574
Net income	100,477	131,363	161,167
Less: Net income attributable to non-controlling interests	4,720	4,916	5,663
Net income attributable to Select Medical Corporation	95,757	126,447	155,504
Other comprehensive income:			
Unrealized gain on interest rate swap, net of tax	8,914	—	—
Comprehensive income attributable to Select Medical Corporation	\$ 104,671	\$ 126,447	\$ 155,504

The accompanying notes are an integral part of these consolidated financial statements.


December 16, 2013

10:06am

Page Ten
December 16, 2013

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,

A handwritten signature in cursive script that reads "John Wellborn". The signature is written in dark ink and is positioned below the word "Respectfully,".

John Wellborn
Consultant

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSONNAME OF FACILITY: SELECT SPECIALTY HOSPITAL --
NORTH KNOXVILLE

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

John Wellborn
 Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 16 day of Dec, 2013, witness my hand at office in the County of Davidson, State of Tennessee.

Christopher D. Dobbs
 NOTARY PUBLIC

My commission expires 6-21-16

HF-0043

Revised 7/02



COPY- SUPPLEMENTAL-2

Select Specialty Hospital
NKnoxville

CN1312-047

December 20, 2013

Phillip M. Earhart, HSD Examiner
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application CN1312-047
Select Specialty Hospital--North Knoxville

Dear Mr. Earhart:

This letter responds to your second request for additional information on this application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

1. Section A, Applicant Profile, Item 6

The applicant's response that documentation of legal interest in the site for the relocated LTACH will be submitted under separate cover is noted.

The applicant expects to submit an executed document within a few days, in time for acceptance into the January 1 review cycle.

2. Section B, Project Description, Item I.

a. The applicant stated that no more than 25% of an LTACH's Medicare admissions can come from any single provider location. The chart by admission source submitted indicated that 36.91% of the 2012 Medicare admissions to Select Specialty Hospital-North Knoxville were from Physicians Regional Medical Center. Please explain.

On December 18, two days after the applicant submitted responses to your first supplemental questions, the law changed to permit up to 50% to come from any single hospital. But even prior to this new change, the old law allowed up to 50% to come from any single hospital through the end of CY2013. The 25% ceiling would have imposed for CY2014 admissions, at the new location. That is now all mooted by the amendment. The change has been passed by both chambers and signed by the President.

Page Two
December 20, 2013

b. The applicant has stated there will be no significant change in referral sources or case mix. Wouldn't the applicant expect an increased number of referrals from North Knoxville Medical Center and a reduced number of referrals from Physicians Regional Medical Center?

Select projects that the referral volumes from each of those hospitals will remain constant for two reasons. First, the ETACH is a regional referral facility and it currently receives all the patients that need this care, from both North Knoxville and Physicians Regional Medical Centers. Second, most of Select Specialty North Knoxville's referrals from those two facilities are made by the same large physician group, which rotates through both facilities.

3. Section B, Item II.A.

The applicant has stated the new lease will be for 25,107 rentable square feet; however the Square Footage Chart lists a total of 23,624 square feet. Please explain.

Those figures are correct.

The Square Footage Chart is an architectural analysis that deals with usable square feet--the actual floor space being covered by the project (23,624 SF), which is the SF data on which costs are being estimated.

The lease, like most commercial leases, takes that usable SF figure and "grosses it up", or increases it, by a small percentage, to capture the tenant's use of common areas outside its actual leased premises: elevators, stairwells, corridors, building entrances, parking, etc. Here that process resulted in 25,107 SF for leasing calculation purposes. Table Two-A in the application provided both figures.

The gross-up percentages can vary from 5% to 12% commonly; here it appears that the MOB owner is using slightly more than a 6% gross-up factor to arrive at the "rentable" square footage for lease purposes. That is not the applicant's calculation.

Page Three
December 20, 2013

4. Section B, Project Description Item III.A.(Plot Plan)

The applicant has stated that all patients coming to the LTACH for admission will first come by ambulance transport to North Knoxville Medical Center's Emergency Department. What is the admission process for North Knoxville Medical Center patients being discharged to the LTACH?

The applicant was referring to patients coming from other hospital campuses. Those coming from North Knoxville Medical Center will simply be transported by gurney through that hospital's corridors and elevators to the LTACH floor in the adjoining MOB.

The applicant has also learned that patients coming to the LTACH from other hospitals may not be taken off the ambulance at the ED canopied entrance. The hospital and MOB where this LTACH is located has other entrances with canopies, according to Select operations officers. It is likely that the ambulances with LTACH transfers, none of whom are emergency transfers, will be asked to discharge their patients at another canopied hospital or MOB entrance, especially when the ED is busy with true emergency traffic.

5. Section C, Economic Feasibility, Item 10.

Your response to this item is noted. If available, please provide the audited financial statements for Select Specialty Hospital-North Knoxville.

Select does not have audited statements for individual hospitals unless mandated by State laws; in the case of Tennessee this is not required and it is not done. The submitted internal unaudited statements are all that is available.

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,



John Wellborn
Consultant

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSONNAME OF FACILITY: SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE
SECOND SUPPLEMENTAL

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

John Wellborn
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 20 day of Dec, 2013,
witness my hand at office in the County of Davidson, State of Tennessee.

Christopher D. Dobbs
NOTARY PUBLIC

My commission expires 6-21-16.

HF-0043

Revised 7/02



SUPPLEMENTAL - #3

-COPY-

Select Specialty Hospital

CN1312-047

128
TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

SUPPLEMENTAL #3

December 30, 2013

4:10 pm

December 30, 2013

By Hand Delivery

Mark Farber, Deputy Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

**RE: CON Application CN1312-047
Select Specialty Hospital—North Knoxville**

Dear Mr. Farber:

This letter responds to the Agency's third request for additional information on this application and is being submitted in triplicate with the appropriate affidavits. When we spoke last week, you asked for documentation of the recent change in the Medicare reimbursement rule for LTACH admissions for CY2014. (Referenced in John Wellborn's letter of December 20, 2013, in the applicant's response to question 2.a.) In response to your third request, I enclose with this letter an American Hospital Association summary of the LTACH provisions in the Bipartisan Budget Act,¹ which was signed into law on December 26, 2013. The summary states, on page two (under "**25% Rule**"), that relief was granted from the 25% Rule for four years beginning October 1, 2013. For the next four years, hospital-within-hospital LTACHs will be allowed to admit up to 50% of their patients from a single provider location.

Finally, Select is still waiting on a final signature of the lease for the new site proposed in the application. The executed document will be submitted to the Agency as soon as it is received.

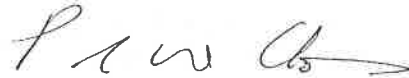
¹ The enclosed AHA summary of the Bipartisan Budget Act was obtained at <http://www.aha.org/advocacy-issues/postacute/ltach/index.shtml>.

December 30, 2013**4:10 pm**

Tennessee Health Services and
Development Agency
December 30, 2013
Page 2

Thank you for your assistance.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Paul W. Ambrosius", with a stylized flourish at the end.

Paul W. Ambrosius
Counsel to the Applicant

PWA/kmn

LTCH Provisions in Bipartisan Budget Act Signed into Law Dec. 26, 2013

LTCH Prospective Payment System (PPS) Payment for Selected Cases

Beginning Oct. 1, 2015, cases that were admitted to an LTCH immediately following discharge from an inpatient PPS hospital would be paid an LTCH PPS rate if they meet either of the following criteria:

- Prior inpatient PPS hospital stay included at least three days in an intensive care unit (ICU) or coronary care unit (CCU); or
- Discharged patient assigned to an MS-LTC-DRG for cases receiving greater than 96 hours of ventilator service in the LTCH.

Site-Neutral Payment for Selected Cases

- Effective Date. A site-neutral payment policy would take effect for cost reporting periods beginning on or after Oct. 1, 2015.
- Cases Paid Site-Neutral Rate:
 - Cases that do not meet the LTCH PPS criteria.
 - Cases with a psychiatric or rehabilitation principal diagnosis.
- Site-Neutral Rate:
 - LTCH cases paid the site-neutral rate would be paid the lesser of the following two options:
 1. The inpatient PPS-comparable per-diem rate (currently used to pay some short-stay outlier cases) plus outlier payment, if applicable; or
 2. 100% of estimated cost of the services.
 - No cap will be applied to a payment for site-neutral cases.
- Phase-In of Site-Neutral Policy: For cost reports beginning Oct. 1, 2015 through Sept. 30, 2017, cases subject to the site-neutral rate would be paid a blended rate that is based half on the site-neutral rate and half on the LTCH PPS rate.
- Regulatory Relief for Site-Neutral Cases: For discharges in cost reports beginning Oct. 1, 2015 or later, cases paid a site-neutral rate and Medicare Advantage cases would be exempt from the LTCH average length of stay calculation. Existing inpatient PPS hospitals that convert to an LTCH in the future would not receive this exemption.
- Facility Cap on Site-Neutral Cases: For cost reporting periods beginning Oct. 1, 2015 and thereafter, the Centers for Medicare & Medicaid Services (CMS) would annually inform each LTCH of its "LTCH discharge payment percentage." For cost reporting periods beginning Oct. 1, 2019 and thereafter, at least 50 percent of all of its discharges must be cases paid under the LTCH PPS, or the LTCH will be paid the inpatient PPS rate for all discharges for future cost reporting periods. LTCHs subject to this payment reduction may seek reinstatement under a process to be established by the Department of Health and Human Services (HHS) Secretary. (The parameters of this provision are being studied to assess how they

would likely be interpreted and implemented by CMS and to consider further advocacy on this item.)

- Study: By June 2019 the Medicare Payment Advisory Commission would be required to report to Congress on the effect of site-neutral payment on LTCHs and hospice, the need to continue applying the 25% Rule, and recommendations on how to change the site-neutral policy.

25% Rule

- Four-Year Extension of 25% Rule Relief. 25% Rule relief would be granted for four-years for cost reporting periods of Oct. 1, 2013 through Sept. 30, 2017.
- Hospital-within-Hospital (Hw) LTCHs. For this four-year period, HwH LTCHs would be held to the more lenient threshold of 50% (with a 75% threshold for rural LTCHs and LTCHs in MSA-dominant locations).
- Freestanding LTCHs. For this four-year period, freestanding LTCHs would be exempt from the 25% Rule.
- Grandfathered LTCHs. The approximately 17 “grandfathered LTCHs” would be permanently exempt from the 25% Rule.
- 25% Rule Study. By September 2016, CMS would be required to report to Congress on whether there is further need for the 25% Rule.

Moratorium on New LTCH Beds & Facilities

A two-plus year moratorium on new LTCH beds and facilities, with no exceptions, would be implemented from Jan. 1, 2015 through Sept. 30, 2017.

New LTCH Quality Measure

By October 2015, the HHS Secretary would be required to establish a quality measure on functional status for change in mobility for patients requiring ventilator support.

Calvary LTCH

In its LTCH rulemaking for fiscal years 2015 or 2016, CMS would report on a study of payments and regulations for the single cancer LTCH, Calvary Hospital in the Bronx, NY, including whether this hospital should return to being paid under the former cost-based payment system known as TEFRA.

December 30, 2013**4:10 pm****AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF DAVIDSON

CON Application CN1312-047

NAME OF FACILITY: Select Specialty Hospital - North Knoxville

I, Paul W. Ambrosius, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Paul W. Ambrosius
Signature/Title

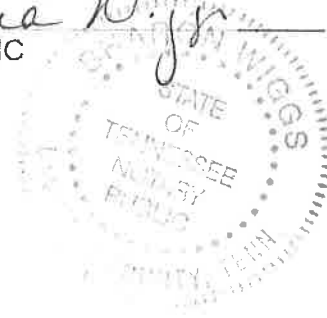
Sworn to and subscribed before me, a Notary Public, this the 30th day of Dec., 2013,
witness my hand at office in the County of Davidson, State of Tennessee.

Shara W. Wiggs
NOTARY PUBLIC

My commission expires May 5, 2015.

HF-0043

Revised 7/02



**COPY-
Additional Info.
SUPPLEMENTAL-3**

Select Specialty Hospital

CN1312-047

134
TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

SUPPLEMENTAL- # 3

January 9, 2014

4:15pm

December 30, 2013

By Hand Delivery

Mark Farber, Deputy Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

**RE: CON Application CN1312-047
Select Specialty Hospital—North Knoxville**

Dear Mr. Farber:

This letter further responds to the Agency's third request for additional information on this application and is being submitted in triplicate with the appropriate affidavits. Enclosed please find in connection with this project:

Lease Agreement dated January 2, 2014
Ground Lease Agreement dated December 12, 2007
First and Second Amendments to Ground Lease Agreement

Thank you for your assistance.

Very truly yours,



Paul W. Ambrosius
Counsel to the Applicant

PWA/kmn

LETTER OF INTENT -- HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the News Sentinel, which is a newspaper of general circulation in Knox County, Tennessee, on December 1, 2013, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Select Specialty Hospital--North Knoxville (a long term acute care hospital), owned and managed by Select Specialty Hospital--North Knoxville, Inc. (a corporation), intends to file an application for a Certificate of Need to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, Knoxville, TN 37917, to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Dannaher Drive, Powell, TN 37849. The proposed location is a medical office building on the campus of Tennova Healthcare--North Knoxville Medical Center. The project cost for CON purposes, which includes the value of space being leased, is estimated at \$13,910,744. Select Specialty Hospital--North Knoxville is licensed by the Board for Licensing Health Care Facilities for thirty-three (33) long term acute care beds. Its licensed bed complement will remain the same at the new location. The project does not include any major medical equipment and it will not add or discontinue any other significant health service.

The anticipated date of filing the application is on or before December 6, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 210, Nashville, TN 37215; (615) 665-2022.

 12-1-13

(Signature)

(Date)

jwdsg@comcast.net
(E-mail Address)

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954**

DATE: March 1, 2014

APPLICANT: Select Specialty Hospital-Knoxville
North Knoxville Medical Center, Physician's Plaza, 1st Floor
7557-B Dannaer Drive
Powell, Tennessee 37849

CN1312-047

CONTACT PERSON: John Wellborn
Development Support Group
419 Hillsboro Road, Suite 210
Nashville, Tennessee 37215

COST: \$13,910,744

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Select Specialty Hospital-Knoxville, located in Knoxville (Knox County), seeks Certificate of Need (CON) to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, to leased space at North Knoxville Medical Center. The proposed location is a medical office building on the campus of Tennova Healthcare-North Knoxville.

The total renovated square footage is 23,624 square feet with an estimated cost of \$5,025,000, or \$212.71 per square foot.

This application has been placed on the **Consent Calendar**. Tenn. Code Ann. § 68-11-1608 Section (d) states the executive director of Health Services and Development Agency may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

The facility is owned and operated by Select Specialty Hospital-North Knoxville, Inc., a Missouri corporation. Its ultimate parent company is Select Medical Holdings Corporation, a Delaware public company traded on the New York stock exchange.

The estimated total project cost is \$13,910,744 and will be through cash reserves (\$6,676,541 for capital costs) as indicated by the Chief Financial Officer in Attachment C, Economic Feasibility-2.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

NEED:

The applicant's primary projected service area includes Anderson, Blount, Campbell, Claiborne, Cocke, Cumberland, Hamblen, Jefferson, Knox, Loudon, Roane, Sevier, and Scott counties. These counties account for 86.45% of all referrals. The proposed secondary service area includes 8 Tennessee counties and 2 other States which account for 13.55% of referrals.

The following chart illustrates the 2014 and 2018 population projections for the applicant's proposed primary service area.

Tennessee Primary Service Area Total Population Projections 2014 and 2018

County	2014 Population	2018 Population	% Increase or (Decrease)
Anderson	75,579	77,851	1.7%
Blount	128,368	135,171	5.3%
Campbell	41,474	42,566	2.6%
Claiborne	32,604	33,280	2.1%
Cocke	36,762	38,615	5.0%
Cumberland	57,815	60,292	4.3%
Hamblen	64,108	65,570	2.3%
Jefferson	53,729	56,872	5.8%
Knox	453,629	475,569	4.8%
Loudon	50,926	53,192	4.4%
Roane	54,006	54,457	0.8%
Sevier	94,833	100,362	5.8%
Scott	21,944	21,969	0.1%
Total	1,165,777	1,215,766	4.3%

Source: *Tennessee Population Projections 2000-2020, June 2013 Revision*, Tennessee Department of Health, Division of Policy, Planning, and Assessment

Select Specialty's group of facilities is Tennessee's largest provider of long term acute care hospital (LTACH) services. Select owns 5 of the 7 LTACH's in Tennessee: 1 in Kingsport, 2 in Knoxville, 1 in Nashville, and 1 in Memphis. All the facilities are on the campuses of medical centers and provide those facilities with ancillary and support services.

The applicant's current location is a leased 33-bed unit on the 4th floor of Tennova Healthcare's hospital on East Oak Avenue. Only 5 of these 33 beds are in private rooms. Tennova has announced they will seek CON approval to move most of the hospital's beds and services to a different location in Knox County. Select Specialty has an opportunity to move immediately to Tennova's newest campus in Powell in north Knox County. This is an excellent opportunity for Select Specialty and makes good business sense.

Having only 5 private rooms, Select must often use semi-private rooms as single rooms to isolate infectious patients or separate patient of different genders. During high periods of demand, Select must defer admissions of patients needing to transfer from short-term acute care hospitals. The use of non-private rooms is not the current standard of care sought by the community, nor does the current configuration of beds meet AIA design standards.

The North Knoxville facility will allow select to have all private beds enabling the facility to utilize the 33 beds more efficiently. In addition, patient rooms will be larger thus making it easier to serve ventilator and dialysis patients. Overall, patients will be provided a more comfortable experience during their weeks of care. The current location suffers from the problems older building naturally have, including problems with temperature control and water leakage around windows.

TENNCARE/MEDICARE ACCESS:

The applicant participates in both the Medicare and Medicaid programs. Select has a contract with BlueCare TennCare MCO.

The applicant projects gross Medicare revenues of \$28,299,956 or 79.5% of gross revenues and Medicaid revenues of \$2,064,651 or 5.8% of gross revenues.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

The Department of Health, Division of Policy, Planning, and Assessment has reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located on page 29 of the application. The total estimated project cost is 13,910,744 (\$6,676,541 for capital costs).

Historical Data Chart: The Historical Data Chart is located on page 33 of the application. The applicant reports net operating income of \$1,073,422, \$1,438,761 and \$1,103,710 in years 2010, 2011, and 2012, respectively.

Projected Data Chart: The Projected Data is located on page 34 of the application. The applicant projects 385 admissions and 9,548 patient days and 389 admissions and 9,647 patient days, in years one and two with net operating revenues of \$1,130,918 and \$1,230,845 each year, respectively.

The applicant provided the average charges, deductions, net charge, and net operating income below.

	CY2015	CY2016
Patient Days	9,548	9,647
Admissions or Discharges	385	389
Average Gross Charge Per Day	\$3,728	\$3,840
Average Gross Charge Per Admission	\$92,461	\$95,232
Average Deduction from Operating Revenue Per Day	\$2,337	\$2,431
Average Deduction from Operating Revenue Per Admission	\$57,961	\$60,290
Average Net Charge (Net Operating Revenue) Per Day	\$1,391	\$1,409
Average Net Charge (Net Operating Revenue) Per Admission	\$34,500	\$34,942
Average Net Operating Income After Expenses, Per Day	\$25	\$32
Average Net Operating Income After Expenses, Per Admission	\$612	\$784

Projected Data Chart

The Medicare reimbursement, current and future charge comparisons are provided by the applicant in Table Twelve on page 39 of the application. The applicant's gross charge per day and per stay are lower than most of the charges of LTACH's in Tennessee.

It is not feasible for the applicant to remain in the current facility which is an aged structure without adequate private rooms. It is also not a reasonable business decision to remain in a facility which may not be available in the future.

The applicant rejected adding additional beds because they are meeting most requests for admission with its current bed compliment.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

Select Specialty Hospital-North Knoxville is located in the tertiary Tennova Healthcare facility in central Knoxville. Tennova is the "host" hospital for Select. Select contracts with the host hospital and the host's vendors to deliver the ancillary and support services needed by its patients. This includes food services, diagnostic imaging and testing, surgery if required, health professional consults and support on a 24-hour basis. As an LTA, Select Specialty Hospital-North Knoxville receives transfer requests from many primary service area hospitals on a regular basis.

This project will not have any negative effects on other providers. The project will not change the licensed bed compliment, the scope of services, primary service area, ownership, or management.

The positive effects include additional private rooms that are larger and more modern, greater functionality for patients requiring special equipment in their rooms, and increased patient and referral hospital satisfaction.

The applicant is not projecting any change in staffing as a result of this project.

Select Specialty Hospitals in Knoxville provide clinical rotations for nursing and therapy training programs, under contracts with Pellissippi State Community College, South College, Belmont University, Carson Newman College, Lynchburg College, and Roane State Community College.

The applicant is certified by Medicaid and Medicare, licensed by the Tennessee Department of Health, Board for Licensing Healthcare Facilities, and the Joint Commission.

The most recent Joint Commission survey occurred on February. Two areas of deficiencies were noted in Medical Records Services and Physical Environment. Evidence of standard compliance was submitted and accepted on 4/15/13.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

**CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT
OF
HEALTH CARE INSTITUTIONS**

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

Not applicable.

2. For relocation or replacement of an existing licensed health care institution:

- a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

Not applicable. The applicant does not own its current premises on East Oak Hill Avenue. The premises are leased from a licensed "host" hospital.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant and its affiliated facility Select Specialty Hospital-Knoxville are the only LTACH's in the Knoxville region. The applicant's facilities are affiliated with the two largest hospital systems in the region: Tennova and Covenant Health.

The applicant's two LTACH's operate 33 and 35 beds, respectively, which are utilized at between 70% and 80% occupancy. The North facility, which is proposing this relocation, has averaged 77% occupancy over the past two years, and is averaging almost 78% this current year.

3. For renovation or expansions of an existing licensed health care institution:

- a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

Not applicable.

- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

Not applicable.